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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER – PALO VERDE UTILITIES
COMPANY FOR THE ESTABLISHMENT OF JUST
AND REASONABLE RATES AND CHARGES FOR
UTILITY SERVICE DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON THE FAIR
VALUE OF ITS PROPERTY THROUGHOUT THE
STATE OF ARIZONA

DOCKET NO. SW-20445A-09-0077

IN THE MATTER OF THE APPLICATION OF
VALENCIA WATER COMPANY – GREATER
BUCKEYE DIVISION FOR THE ESTABLISHMENT
OF JUST AND REASONABLE RATES AND
CHARGES FOR UTILITY SERVICE DESIGNED TO
REALIZE A REASONABLE RATE OF RETURN ON
THE FAIR VALUE OF ITS PROPERTY
THROUGHOUT THE STATE OF ARIZONA

DOCKET NO. W-02451A-09-0078

IN THE MATTER OF THE APPLICATION OF
WILLOW VALLEY WATER CO. FOR THE
ESTABLISHMENT OF JUST AND REASONABLE
RATES AND CHARGES FOR UTILITY SERVICE
DESIGNED TO REALIZE A REASONABLE RATE
OF RETURN ON THE FAIR VALUE OF ITS
PROPERTY THROUGHOUT THE STATE OF
ARIZONA

DOCKET NO. W-01732A-09-0079

IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER – SANTA CRUZ WATER
COMPANY FOR THE ESTABLISHMENT OF JUST
AND REASONABLE RATES AND CHARGES FOR
UTILITY SERVICE DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON THE FAIR
VALUE OF ITS PROPERTY THROUGHOUT THE
STATE OF ARIZONA

DOCKET NO. W-20446A-09-0080

IN THE MATTER OF THE APPLICATION OF
WATER UTILITY OF GREATER TONOPAH FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES FOR
UTILITY SERVICE DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON THE FAIR
VALUE OF ITS PROPERTY THROUGHOUT THE
STATE OF ARIZONA

DOCKET NO. W-02450A-09-0081

Global's Closing Brief

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IN THE MATTER OF THE APPLICATION OF
VALENCIA WATER COMPANY – TOWN
DIVISION FOR THE ESTABLISHMENT OF JUST
AND REASONABLE RATES AND CHARGES FOR
UTILITY SERVICE DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON THE FAIR
VALUE OF ITS PROPERTY THROUGHOUT THE
STATE OF ARIZONA

DOCKET NO. W-01212A-09-0082

Global's Closing Brief

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GLOSSARY OF KEY TERMS

ADEQ	Arizona Department of Environmental Quality
ADWR	Arizona Department of Water Resources
AIAC.....	Advances in Aid of Construction
BMP	ADEQ Best Management Practices for Water Conservation
CAWS	Certificate of Assured Water Supply
CIAC.....	Contributions in Aid of Construction
CP.....	CP Water Company
DAWS.....	Designation of Assured Water Supply
DREAM	Distributed Renewable Energy Adjustment Mechanism
DSM.....	Demand Side Management
Ex.....	Exhibit
Francisco Grande	Francisco Grande Utilities Company
Global Parent	Global Water Resources, LLC
Global Utilities	the Applicants in this case: (1) Global Water – Santa Cruz Water Company; (2) Global Water – Palo Verde Utilities Company; (3) Valencia Water Company – Town Division; (4) Valencia Water Company – Greater Buckeye Division; (5) Water Utility of Greater Tonopah; and (6) Willow Valley Water Co., Inc.
Global.....	Global Parent and all of its subsidiaries including the Global Utilities
Greater Tonopah	Water Utility of Greater Tonopah, Inc.
ICFA	Infrastructure Coordination and Financing Agreement
IDA	Industrial Development Authority
MXA	Main Extension Agreement
NARUC.....	National Association of Regulatory Utility Commissioners

1	Santa Cruz.....	Global Water – Santa Cruz Water Company
2	TWM.....	Total Water Management
3	Tr.....	Transcript
4		
5	Palo Verde.....	Global Water – Palo Verde Utilities Company
6	P3	Public Private Partnership Agreement
7	USOA.....	Uniform System of Accounts
8	Valencia – Town	Valencia Water Company – Town Division
9	Valencia – Greater Buckeye	Valencia Water Company – Greater Buckeye Division
10	Willow Valley	Willow Valley Water Co., Inc.
11	WMC.....	West Maricopa Combine, Inc.
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1 **I. Introduction.**

2 **A. Overview.**

3 In order to meet the challenges of water scarcity and significant future growth, Arizona –
4 and the Global Utilities – must: (1) maximize water conservation and the use of recycled water; (2)
5 engage in regional planning to ensure there will be sustainable water use in the future (especially
6 in high-growth areas with scarce water); and (3) acquire and consolidate small undercapitalized
7 utilities that are incapable of necessary water conservation methods.

8 These goals have historically been difficult to achieve given the disparate interests
9 involved. Developers want to develop land rapidly and at the least cost, homeowners want
10 affordable housing in neighborhoods with parks and greenspace, water utilities want to avoid
11 carrying costs and regulatory risk, regulators want to ensure adequate, reliable, and safe service at
12 affordable rates. Too often those diverse objectives have led to half-measures and compromises
13 which fail to consider the impact on our environment and on our long-term sustainability.

14 Global has developed a mechanism that has been essential in harmonizing these goals. The
15 ICFAs are integral to Global's ability to maximize water conservation and re-use and to acquire
16 problematic small water companies. Global has led the way on acquisitions and consolidations,
17 and has never asked ratepayers to contribute to that effort. Global has led the way in emplacing
18 "purple pipe" – using recycled water to provide livable neighborhoods while minimizing the
19 impact on the environment. And Global has been recognized by regulators and developers for its
20 model. The rate treatment in of ICFA fees received by Global Parent will determine whether this
21 key mechanism will be available to achieve these critical goals.

22 The Global Utilities are fully aware of the impact of rate increases at this difficult time.
23 Global undertook significant cost cutting measures that are reflected in the test year. Although all
24 parties to the docket agree that the Global Utilities need – and are entitled to – a significant rate
25 increase, Global has taken aggressive action to mitigate the impact of rate increases, including
26 proposing:

- 27
- a three-year phase-in for wastewater rates, with no recovery of the foregone revenue;

- 1 • a five-year phase-in for recycled water and non-potable raw water, with no recovery
- 2 of the foregone revenue;
- 3 • imputing \$115 million in low cost parent-level debt to the Global Utilities;
- 4 • excluding \$32 million in “Southwest Plant” from rate base;
- 5 • a Low-Income Tariff;
- 6 • a DSM program funded by Global, not customers;
- 7 • stipulating to Staff’s cost of equity; and
- 8 • no “fair value” rate base, and no post-testy year plant (“PTYP”).

9 Many of these proposals are unprecedented; all of them were proposed by Global and no other
10 party in this case – although the other parties accepted most of them once they were proposed by
11 Global.

12 Global’s proposals will:

- 13 • ensure that ICFAs remain a viable tool to achieve effective water conservation,
- 14 maximum recycled water use and critical regional planning in areas of future high
- 15 growth but scarce water resources;
- 16 • allow the Global Utilities to remain financially viable; and
- 17 • increase incentives for water conservation in the Global Utilities’ service areas.

18 **B. Key Issues.**

19 This case presents three key issues:

20 (1) **TWM.** Total Water Management (TWM) focuses on sustainable water use,
21 including conservation, the use of recycled water, and the energy impact of water decisions. TWM
22 is used throughout the world, but it is used by only one Arizona utility. Arizona has high growth,
23 but limited surface water and groundwater resources. These resources are almost fully allocated
24 (or in some cases, over-allocated). Should the Commission adopt ratemaking approaches that
25 make TWM financially viable?

26 (2) **Acquisitions.** Arizona has almost three hundred water companies. Most of them
27 are small with limited financial, managerial and technical capacity. Some cannot provide adequate

service; all lack economies of scale. Although the Commission has expressed support for acquisitions, little progress has been made, and existing regulatory tools (e.g. acquisition adjustments) harm ratepayers. Should the Commission allow utilities to use ICFA fees (with no deduction from rate base) as a revenue-neutral way of financing acquisitions?

(3) **Carrying Costs.** Regional infrastructure lowers operating expenses significantly. Regional infrastructure is also essential for implementing TWM, including the use of recycled water. But regional infrastructure costs more to build, and some of it may not be “used and useful” until the future. The additional carrying costs of regional infrastructure discourage its use under traditional regulatory methods. Should the Commission allow ICFA fees to offset the carrying costs of regional infrastructure?

These three issues relate to financing the State’s water future. At the end of the day, the Commission will have to answer these questions: How do we encourage conservation and consolidation? Is there a new form of financing that needs to take its place amongst Debt, Equity, AIAC, CIAC? The options are summarized in the following table:

Form of Financing	Acquisitions?	Carrying Costs of Regionalization?	Total Water Management's Water Conservation?	Rate Impacts	Notes
Debt	No. Debt financing can only be acquired via securitizing assets and cash flow. Seller's prices too high to pay for with debt.	Possibly, but no cash flow for debt service from assets not in rate base.	Possibly, but no cash flow for debt service from assets not in rate base.	Recovery of debt service payments.	
Equity	Yes.	Yes.	Yes.	Recovery of ROE.	Access to capital is limited.
AIAC	No. Precluded by Rule.	No. Rule requires funds to be used for specific development.	No. Infrastructure limited to what is required for specific development and what is demanded by ADEQ/MCESD.	Transitions to rate base over time. Recovery of Depreciation Expense. Results in higher operating costs.	Lack of statutory requirements and absence of rules requiring re-use limit the utility's ability to demand additional infrastructure.

Form of Financing	Acquisitions?	Carrying Costs of Regionalization?	Total Water Management's Water Conservation?	Rate Impacts	Notes
CIAC	No. Precluded by Rule.	No. Rule requires funds to be used for specific development.	No. Infrastructure limited to what is required for specific development and what is demanded by ADEQ/MCESD.	Results in higher operating costs. No recovery on or of capital investment.	Lack of statutory requirements and absence of rules requiring re-use limit the utility's ability to demand additional infrastructure.
ICFA	Yes.	Yes. Utility has control over infrastructure.	Yes. Utility has control over infrastructure.	Lower operating expenses. Shields ratepayers from development and used and useful risk.	

C. The Commission must address water scarcity.

In 2007, Global published "Total Water Management"¹ which began:

Water management in Arizona and the arid southwestern United States is being influenced by two increasingly synchronous and alarming trends: **explosive growth and water scarcity**. The intersection of these factors – a future certainty – will drive water policy to extreme measures.... **The State of Arizona is in the crosshairs of the collision between growth and supply.**

Very little has occurred since that booklet was published. The only change Global would make to that introduction is changing the phrase "explosive growth and water scarcity" to, "explosive *and volatile* growth and water scarcity."

This case presents the Commission with a perplexing challenge: despite the Commission's focus on sustainability, despite the ADWR's best management practices (BMPs), and ADEQ's efforts to encourage sustainability, and despite Governor Brewer's explicit focus on meeting Arizona's water sustainability challenge, despite all that, Staff and RUCO propose eliminating the only tool that has resulted in multiple acquisitions of small, troubled water companies, and to eliminate the only tool that has led to regional-scale water reclamation and reuse.

Global believes that two things are required in Arizona – the first is an understanding of our water situation as it really exists; and the second is a water industry that can survive in that situation. The Colorado River is not a robust system – it is absolutely over-allocated; and

¹ Ex. A-10 (emphasis added).

1 recent studies all found that its supply will become increasingly volatile in the next few decades.²
2 Concurrent with those supply-side issues, Arizona continued to grow during the '90s and '00s, and
3 most observers predict that Arizona will continue growing during the next two decades.³

4 So the demand-side is increasing at the same time that supply-side certainty and
5 predictability is decreasing. If one accepts those two established facts: that our water supplies are
6 limited and volatile, and that Arizona will continue to grow; then the Commission must have a
7 plan for dealing with the resulting water scarcity.

8 Two policies are needed to deal with water scarcity. The first is regional consolidation of
9 small water companies into fully integrated utilities with access to capital. The second is a policy
10 of state-wide Total Water Management. Global has proven that TWM can reduce water usage by
11 40% (two billion gallons of groundwater saved through the four years ending 2009), and has
12 shown that it will, in the Belmont development, reduce groundwater usage by 60%.⁴

13 Regarding the first policy (consolidation), Staff and RUCO argue that developers would
14 only give money to Global Parent for plant, and thus would never have given Global Parent money
15 to acquire the deeply troubled West Maricopa Combine utilities.⁵ Yet they never explain why else
16 the developers paid Global Parent millions of dollars under ICFAs that specify that the money will
17 be used for the WMC acquisition. Before their purchase by Global, the WMC utilities were built
18 almost entirely with contributions from developers, so the developers who signed the ICFAs were
19 intimately familiar with WMC and its contribution-friendly approach.

20 The developers could very simply have paid contributions to WMC for plant, and avoided
21 paying millions to Global Parent for an acquisition. The developers would never have had to enter
22 ICFAs that specifically require them to accept recycled water – including recycled water to the
23 home for Belmont.⁶ Yet despite those millions of dollars in costs, the developers entered into
24 ICFAs. Why? Because Global Water's Total Water Management approach is necessary for the

25
26 ² Ex. A-8 (Hill Rebuttal) at 6:7-20; Tr. at 198:23 to 199:2 and 199:10-15.

27 ³ Ex. A-7 (Hill Direct) at 14-16.

⁴ Tr. (Hill) at 197:13-20.

⁵ See, e.g., Tr. (Jaress) at 723:10-12.

⁶ Tr. (Jaress) at 844:17 to 849:20.

1 western portion of Maricopa County, and because WMC was not capable of Total Water
2 Management.

3 Regarding the second policy, Total Water Management is the rationale behind Global
4 Water's structure, its vision, its infrastructure, and its ICFAs. And this view is not Global's alone.
5 As Mr. Hill pointed out, these fundamentals have worldwide attention.⁷ Mr. Hill quoted the
6 Pacific Institute's biannual report "*The World's Water 2008-09*", where Peter Gleick and others
7 coined the concept of a "soft path for water."⁸ Every element of Global's approach is encapsulated
8 in the "soft path" as described by Gleick:

- 9 • Total Water Management: "a comprehensive approach to water management, planning, and
10 use that relies on water infrastructure but combines it with improvements in the overall
11 productivity of water use";
- 12 • ICFAs: "the smart application of economics to encourage efficiency and equitable use";
- 13 • Global's Distributed Renewable Energy Adjustor Mechanism ("DREAM"): "innovative
14 new technologies";
- 15 • Global's P3 and MOUs: "and the strong participation of communities and local water users
16 in making decisions"; and
- 17 • Purple Pipe requirements in the ICFAs: "Rather than seek endless sources of new supply,
18 the soft path matches water services to the scale of the users' needs, and it takes
19 environmental and social concerns into account to ensure that basic human needs and the
20 needs of the natural world are both met".

21 **D. Global sharply limited the issues in this case to protect customers.**

22 Because of the current extraordinary economic situation, the Global Utilities took
23 unprecedented actions to limit the customer impact of this rate case. As Mr. Hill explained, "[w]e
24 laid off 40 percent of our staff since September 1st of 2008."⁹ The Global Utilities made a pro-
25 forma adjustment to eliminate the amounts paid to the former employees before the lay-offs.¹⁰ In

26 ⁷ Ex. A-7 (Hill Direct) at 20-21.

27 ⁸ (Gleick 2002, 2003; Wolff and Gleick 2002; Brooks 2005). *The World's Water 2008-09*, Chapter
1, Peak Water by Meena Palaniappan and Peter H. Gleick.

⁹ Tr. at 35:5-6; *see also* Ex. A-7 (Hill Direct) at 17:15-16.

¹⁰ Ex. A-21 (Moe Direct) at 4:26-5:8.

1 addition, Global eliminated all bonuses during the test year, dramatically reduced overtime, and
2 eliminated all cost of living increases and pay raises.¹¹ Moreover, Global's shareholders continued
3 to pay 84% of executive compensation costs,¹² which limited the total amount of executive
4 compensation recovered in this case to \$162,428.¹³ All of these employee-related measures are
5 reflected in adjusted test year expenses.

6 The Global Utilities proposed a three-year phase-in for the rates of the largest utility, Palo
7 Verde. Under this proposal, a third of Palo Verde's revenue requirement will be recognized at the
8 time of the rate order, an additional third one year later, and the final third two years after the
9 order.¹⁴ Unlike other phase-in proposals, the Global Utilities are not asking to recover the lost
10 revenue at some later time. The Global Utilities also proposed phasing-in Palo Verde's recycled
11 water rates and Santa Cruz's raw water rates over five years.¹⁵ As with the other phase-in, the
12 Global Utilities will not seek recovery of the forgone revenue.¹⁶

13 The Global Utilities also excluded more than \$32 million in plant from rate base for their
14 Southwest Maricopa region.¹⁷ The Commission specifically ordered the Global Utilities to build
15 this plant, thus giving the Global Utilities a strong case for including the plant in rate base.¹⁸

16 Ratepayers also benefit from imputing the low-cost Industrial Development Authority
17 (IDA) debt issued by Global Parent¹⁹ into the capital structures of Santa Cruz and Palo Verde. As
18 Mr. Rowell testified, considering parent-level debt violates a "fundamental principle" of
19 ratemaking.²⁰ Nevertheless, the Global Utilities proposed this abnormal method because they are
20
21
22

23 ¹¹ Ex. A-7 (Hill Direct) at 17:16-22.

24 ¹² Ex. A-7 (Hill Direct) at 17:20-21; Ex. A-9 (Hill Rejoinder) at 3:26-4:2.

25 ¹³ Ex. A-9 (Hill Rejoinder) at 5:4; Tr. at 35:9-12 and 235:16-18.

26 ¹⁴ Ex. A-7 (Hill Direct) at 20:6-10; *see also* Ex. A-1 (Palo Verde Application) at Schedule H-3,
27 Page 2 of 2 and Global Final Schedules, Palo Verde, Schedule H-3, Page 2 of 2.

¹⁵ Tr. (Hill) at 37:12-13; Ex. A-27 (Symmonds Rejoinder) at 9:1-17.

¹⁶ Tr. (Hill) at 36:20-23 and 41:19-21.

¹⁷ Ex. A-12 (Rowell Direct) at 9-12.

¹⁸ Ex. A-12 (Rowell Direct) at 12.

¹⁹ Ex. A-12 (Rowell Direct) at 23:10-12.

²⁰ Ex. A-12 (Rowell Direct) at 26:7-13.

1 “cognizant of the potential for rate shock” and imputing the debt will “pull down the overall rate of
2 return.”²¹

3 The Global Utilities also chose not to raise many typical rate case topics. They stipulated
4 to Staff’s current cost of equity (10.0%).²² They did not present a “fair value” rate base. They did
5 not request Construction Work in Progress (CWIP) or Post-Test Year Plant (PTYP). These
6 decisions benefit ratepayers by reducing revenue requirement directly, and also by reducing rate
7 case expense through reducing the number of issues in dispute. The ratepayer savings can be
8 summarized as follows:

9

Ratepayer Protections	Per Year	2010-2015
Palo Verde Phase In	\$5,972,749 (Year One)	\$8,959,124 ²³
IDA Imputation	\$2,888,300 ²⁴	\$17,329,800
Southwest Plant Exclusion	\$2,700,000 ²⁵	\$16,200,000
No fair value, stipulated cost of equity; no CWIP or PTYP	Unknown	Unknown
Total	\$11,561,049	\$42,488,924

16

17 The Global Utilities also proposed a low-income program (described below) to assist
18 customers in economic distress.²⁶ Finally, the Global Utilities proposed an extensive demand side
19 management (DSM) program entirely funded by Global.²⁷ The DSM program includes many
20 elements to help HOAs and residential customers reduce their usage and hence their bills.

21 ²¹ Ex. A-12 (Rowell Direct) at 26:18-21.

22 ²² Ex. A-12 (Rowell Direct) at 27-30.

23 ²³ Global Final Schedules, Palo Verde, Schedule A-1, Increase in Gross Revenue Requirements (IGRR) = \$8,959,124. Two-thirds of the IGRR will be foregone in the first year after the rate order, and one-third in the following year. $2/3 + 1/3 = 3/3 = 1$.

24 ²⁴ Rate Base and GRCF per Ex. A-22 (Moe Rebuttal), Schedule A-1. Palo Verde: [(Rate Base = \$64,011,238) * 1.66%] * (GRCF = 1.6450860) = \$1,748,046. Santa Cruz: [(Rate Base = \$45,902,454) * 1.51%] * (GRCF = 1.6450860) = \$1,140,254. \$1,748,046 + \$1,140,254 = \$2,888,300.

25 ²⁵ Ex. A-12 (Rowell Direct) at 10:20 to 11:1. (\$32 million times * Palo Verde weighted average cost of capital).

26 ²⁶ Tr. (Hill) at 37:19 to 38:4.

27 ²⁷ Tr. (Hill) at 45:7-12.

1 **II. Using ICFAs for acquisitions is in the public interest.**

2 **A. Arizona badly needs acquisitions to consolidate its fragmented water utility**
3 **sector.**

4 Arizona's water utility industry is highly fragmented. This industry has nearly three
5 hundred companies.²⁸ While a few are large, sophisticated entities, the vast majority are "small
6 operations with limited technical, managerial or financial capabilities."²⁹ Staff concedes that "the
7 economic policies of a public utility commission can impact" the structure of a state's utility
8 industry.³⁰ The impact of those policies is easy to see. For example, California's industry is large
9 (serving 20% of its population), but California has only 129 water companies.³¹ Nevada has only
10 29 water companies.³² Utah has only 22 investor-owned water utilities.³³ In short, Arizona's
11 water utility industry is much more fragmented than its neighboring states.

12 Arizona's multitude of small utilities are a constant source of problems. Some fail
13 spectacularly, causing massive Commission involvement to clean up the mess – often requiring
14 more capable utilities like Global to assume the role of "interim manager". Others are time bombs
15 waiting to go off – just one failed pump, ruptured tank or broken main away from collapse and
16 without the resources to respond to any problems. Still others limp along, lacking resources,
17 expertise and economies of scale. Moreover, small utilities lack the capacity to build the regional
18 infrastructure needed for sustainable water use and reuse.³⁴

19 The problems of small water utilities are aptly illustrated by some of the utilities Global
20 purchased using ICFA funds: West Maricopa Combine ("WMC") and the Sonoran / 387 Districts.
21 WMC owned five "highly troubled", poorly maintained, poorly-designed utilities with a vast
22

23 ²⁸ Ex. A-45 at Response to Global 2.17.

24 ²⁹ Ex. A-12 (Rowell Direct) at 2:11-16.

25 ³⁰ Ex. A-45 at Supplemental Response to Global 2.41(b)(v).

26 ³¹ California Public Utilities Commission, "2008 Annual Report" at 65; available at
27 www.cpuc.ca.gov/PUC/aboutus/ under "annual reports"; visited January 22, 2010.

³² Public Utilities Commission of Nevada, "2009 Biennial Report" at 41; available at
<http://pucweb1.state.nv.us/PDF/Admin/Biennialreport.pdf> visited January 22, 2010.

³³ Public Service Commission of Utah, "2009 Annual Report"; available at
<http://www.psc.state.ut.us/AnnualReports/PSC%2009%20Report%20Screen.pdf> visited January
22, 2010.

³⁴ Tr. (Hill) at 102:15 to 103.11.

1 service area.³⁵ The developers in the area had no confidence in WMC and did not believe WMC
2 could meet their needs – most notably the need to manage water resources on a regional,
3 sustainable basis in this water-scarce region.³⁶ WMC’s Willow Valley utility was serving “nearly
4 black water – water the color of Coca-Cola.”³⁷ Global spent more than \$2 million resolving this
5 issue alone.³⁸ Other WMC systems lacked chlorination and had compliance issues.³⁹

6 Another example is the Sonoran / 387 District acquisitions. These districts were formed by
7 developers as “a way to work around the Arizona Corporation Commission’s authority.”⁴⁰
8 Because these utilities were developer-based, “they were very poorly planned and had insufficient
9 infrastructure to provide service to the residents.”⁴¹ As a result, residents were moving “into their
10 houses without having utilities in place.”⁴² This created a public health emergency. As the
11 Commission explained, “[a]t the request of the City of Maricopa, ADEQ and ADWR, the Global
12 Utilities stepped in and began providing water and wastewater utility service to the customers in
13 the 387 Districts. Without the Global Utilities assistance, the emergency situation that existed
14 could have become worse.”⁴³ The Global Utilities ultimately acquired the assets of the 387
15 Districts and those areas were added to their CC&Ns.⁴⁴

16 **B. Traditional methods do not successfully promote acquisitions.**

17 These problems have been around for a long time. A decade ago, the Commission’s water
18 task force highlighted the problem.⁴⁵ In the decade that followed, little action has been taken.⁴⁶
19 The Commission has expressed support for acquisitions, but that support has not been translated
20 into effective action – indeed, it hasn’t even been translated into policy.⁴⁷ Current approaches have

21 ³⁵ Tr. (Hill) at 55:15-17 and 206:6-11.

22 ³⁶ Tr. (Hill) at 160:11-16.

23 ³⁷ Tr. (Hill) at 55:21-23; Ex. A-24 (Symmonds Direct) at 31:24-27.

24 ³⁸ Ex. A-24 (Symmonds Direct) at 35:16.

25 ³⁹ Tr. (Hill) at 55:17-21.

26 ⁴⁰ Tr. (Hill) at 205:18-20.

27 ⁴¹ Tr. (Hill) at 205:20-22.

⁴² Tr. (Hill) at 55:6-14.

⁴³ Decision No. 70133 (January 23, 2008) at 11:1-5.

⁴⁴ See Decision Nos. 68489 (Feb. 23, 2006) and 70533 (Sept. 30, 2008).

⁴⁵ Ex. A-12(Rowell Direct) at 2:18-26; Ex. A-46 (Water Task Force Decision).

⁴⁶ Ex. A-12(Rowell Direct) at 2:18-26.

⁴⁷ Tr. (Jaress) at 786:12-788:2.

1 not effectively promoted industry consolidation. In fact, Arizona is moving in the wrong direction
2 as small utilities continue to proliferate.

3 There is no clear policy direction regarding acquisitions. When asked about acquisitions of
4 small water companies by larger utilities, Staff's witness, Ms. Jaress, stated that: (1) the
5 Commission has no formal policy⁴⁸; (2) "I just don't know" if the Commission has an informal
6 policy⁴⁹; (3) Staff has no policy.⁵⁰ She also testified that "I have no idea" how many small water
7 companies have been acquired by larger companies since the time of the water task force.⁵¹

8 Although Staff and the Commission itself have no policy on the topic, Ms. Jaress agreed
9 that "the public interest can be served by acquisitions of small companies by larger water
10 companies."⁵² Ms. Jaress stated that acquisition adjustments (including acquisition premiums in
11 rate base) was the only policy tool she was aware of to promote acquisitions.⁵³ Yet she stated that
12 from the early 1990s to the present, she was only aware of two instances where the Commission
13 employed this "policy tool".⁵⁴ She also testified that the Commission has turned down requested
14 acquisition adjustments on a number of occasions.⁵⁵ At this rate, Arizona will suffer the problems
15 of small water companies for decades to come.

16 Ms. Jaress agreed that "the Commission has a long practice of not allowing acquisition
17 adjustments."⁵⁶ Undoubtedly, that is because of the rate impact. Approving an acquisition
18 adjustment means adding the acquisition premium (amount paid over book value) to the rate base,
19 thereby increasing rates – the customers pay for the acquisition.

20 In summary, in the decade since the water task force, little progress has been made. Few
21 acquisitions occurred. Neither the Commission nor Staff have a policy. Staff points to acquisition
22 adjustments as a policy tool for acquisitions, but Staff has rarely supported acquisition

23
24 ⁴⁸ Tr. at 786:17-787:2.

⁴⁹ Tr. at 787:3-7.

25 ⁵⁰ Tr. at 787:14-788:3.

⁵¹ Tr. at 791:1-10.

26 ⁵² Tr. at 789:3-7.

⁵³ Tr. at 788:24.

27 ⁵⁴ Tr. at 788:25-790:1.

⁵⁵ Tr. at 792:6-11.

⁵⁶ Tr. at 790:14-22.

1 adjustments, and the Commission has only approved two acquisition adjustments since the early
2 1990s. And acquisition adjustments, if approved, harm ratepayers. Some other method is needed
3 to encourage consolidation in Arizona's water utility industry. That method is having developers
4 pay for acquisitions – in other words, the ICFA.

5 **C. ICFA's were used for acquisitions.**

6 Staff does not allocate any of the ICFA fees to acquisitions.⁵⁷ But some of the ICFA fees
7 were used to fund acquisitions, as shown by Global's audited financial statements, as well as some
8 of the ICFA's themselves. Even if Staff were correct that some of the ICFA fees went to plant, it is
9 unreasonable to allocate all of the ICFA fees to plant and none to acquisitions. Staff's allocation is
10 also internally inconsistent – on the one hand, Staff argues that money is fungible, so some of it
11 must have gone to plant, but on the other hand, Staff argues that all of it went to plant – i.e. that it
12 can be color-coded to one specific purpose and is therefore not fungible.

13 Staff claims that its allocation is correct because “the money ultimately went for plant.”⁵⁸
14 But Staff concedes that their position will not change no matter what the evidence shows – “no
15 matter what the circumstances,” they will allocate none of the ICFA fees to acquisitions.⁵⁹

16 The evidence in the record demonstrates that ICFA fees were used to fund acquisitions.
17 Staff agrees that some of the ICFA agreements specifically require Global to spend ICFA fees for
18 specified acquisitions.⁶⁰ A good example is the WMC acquisition. The developers asked Global
19 to buy WMC, and offered to pay some of the purchase price. As Mr. Hill testified, “[s]o instead
20 we said, let's let the developers pay for growth.... These developers paid us cash money in
21 advance to buy these utilities.”⁶¹ For example, the Copperleaf ICFA states that Global “shall use
22 its best efforts to complete the acquisition of” the WMC, and that the landowner's payment
23 obligations are “contingent on [Global's] acquisition of WMC.”⁶² The Sierra Negra Ranch ICFA

24
25 _____
26 ⁵⁷ Tr. at 802:1-3.

27 ⁵⁸ Tr. at 802:4-10.

⁵⁹ Tr. at 807:17-22.

⁶⁰ Ex. S-45 at Staff Response to Global Data Request No. 2.13.a.

⁶¹ Tr. at 160:6-12.

⁶² Ex. S-49 at 6 and 15.

1 contains the same requirements.⁶³ Mr. Hill also provided wire transfer records showing an
2 example of ICFA funds received from developers, and later the same day, wire transfers in the
3 same amounts to the then-owners of WMC.⁶⁴

4 Global's financial statements – audited by Deloitte & Touche LLP – detailed the amounts
5 spent on acquisitions, the future amounts still owed on those acquisitions, and expressly noted that
6 the acquisitions were funded, in part, by ICFA fees.⁶⁵ For example, the financial statements show
7 that the WMC acquisition included “an initial payment of \$18.5 million, of which \$6.2 million was
8 funded by the prepayments of ICFA fees.”⁶⁶ They also show that the CHI ICFA required the
9 landowner to “prepay of a portion of its ICFA fees in order to partially finance the utility
10 acquisitions” of Francisco Grande and CP Water.⁶⁷ The financial statements also state that the
11 acquisition of the 387 Districts was tied to “rights under certain ICFAs with landowners in the
12 designated service area.”⁶⁸

13 Throughout this case, Global has provided Staff with extensive information regarding its
14 acquisitions.⁶⁹ Ms. Jaress testified that Global never denied Staff access to information about
15 acquisitions.⁷⁰ That information is summarized on Exhibit A-33, which shows that by the end of
16 the test year, Global had spent more than \$80 million on acquisitions, with tens of millions more
17 due in the next few years.⁷¹ Mr. Hill testified that of that \$80 million, \$43 million was spent on
18 ICFA-related acquisitions.⁷² Moreover, ICFA fees are the primary source of revenue for Global
19 Parent⁷³ – there is no plausible explanation of how Global Parent could have made these
20 acquisitions without using ICFA fees.

21
22

⁶³ Ex. S-50 at 6 and 15.

23 ⁶⁴ Ex. A-9 (Hill Rejoinder) at 16:4-15 and Hill Ex. 2.

24 ⁶⁵ Ex. S-3 at 18-21.

25 ⁶⁶ Ex. S-3 at 19.

26 ⁶⁷ Ex. S-3 at 18.

27 ⁶⁸ Ex. S-3 at 20.

⁶⁹ Ex. S-47; Ex. S-3.

⁷⁰ Tr. at 844:2-4.

⁷¹ Ex. A-33.

⁷² Tr. at 206:12-25.

⁷³ Ex. S-3 at 38-39.

1 **D. Economics of acquisitions using ICFA's.**

2 Staff's and RUCO's position is that ICFA fees used for acquisitions should be deducted
3 from rate base. That approach will discourage acquisitions. As Mr. Rowell explained, "[f]rom a
4 regulatory perspective, it doesn't make sense to create a disincentive for engaging in an activity (in
5 this case consolidation) that the regulator wants to promote."⁷⁴

6 Deducting ICFA fees spent on acquisitions from rate base creates a regulatory disincentive
7 for acquisitions. With such a structure, acquisitions just don't make any economic sense. Mr.
8 Rowell explained this point with a simple example of a small, under-capitalized utility
9 ("SmallCo") purchased by a larger, more capable utility holding company ("HoldCo.").⁷⁵ Under
10 his example, if the acquisition premium is included in rate base, SmallCo's revenue requirement
11 doubles, harming ratepayers.⁷⁶ If HoldCo uses ICFA fees to pay the acquisition premium,
12 SmallCo's revenue requirement remains the same, protecting ratepayers.⁷⁷ But under Staff's
13 proposal to treat the ICFA fees as CIAC, SmallCo's rate base becomes negative, creating "a
14 substantial disincentive against purchasing SmallCo."⁷⁸

15 Ms. Jaress gave similar answers when asked about a hypothetical "Jaress Utility Company"
16 under the following scenario⁷⁹:

- 17 • Jaress Utility Co. has a large CC&N area;
- 18 • Jaress Utility Co.'s rate base is funded by CIAC, so it has no rate base;
- 19 • A developer offers Sabo Corp. \$10 million to buy Jaress Utility Co.

20 Ms. Jaress testified that under this scenario, Jaress Utility Co.'s rate base drops from \$0 to negative
21 \$10 million at the moment the deal closes.⁸⁰ She also testified that if Sabo Corp. invests \$1 million
22 in Jaress Utility Co, it will not earn any return because of the negative rate base.⁸¹ Mr. Rigsby for
23

24 ⁷⁴ Ex. A-12 (Rowell Direct) at 14:11-12.

25 ⁷⁵ Ex. A-12 (Rowell Direct) at 13:6-11.

26 ⁷⁶ Ex. A-12 (Rowell Direct) at 13:12-19.

26 ⁷⁷ Ex. A-12 (Rowell Direct) at 13:19-16.

27 ⁷⁸ Ex. A-12 (Rowell Direct) at 14:3-9.

27 ⁷⁹ Tr. (Jaress) at 794:11 to 795:11.

⁸⁰ Tr. at 795:9-20.

⁸¹ Tr. at 795:22-25.

1 RUCO gave the same answers to an essentially identical hypothetical.⁸² Ms. Jaress stated that her
2 answers would not change, even if the developer did not need any additional plant.⁸³

3 Staff's position seems to be based on Staff's theory that it doesn't "make any sense" for
4 developers to give Global Parent money unless they are getting plant, and so therefore all
5 developer money is for plant and should be CIAC.⁸⁴ But if that were true, the developers would
6 have paid the money to the former owner of WMC. Staff could not explain why they did not do
7 so.⁸⁵ A theory that cannot explain what actually happened is of little use and less validity.
8 Moreover, developers have many motivations for payments other than simply obtaining plant. For
9 example, Ms. Jaress agreed that developers are aware of the following:⁸⁶

- 10 • The Commission's strong preference for integrated water and wastewater service.
- 11 • The Commission's prohibition on using groundwater for golf courses.
- 12 • The impact of sustainable long-term water supplies on the viability of
- 13 developments.
- 14 • Whether an existing utility has health and safety issues.
- 15 • Water supply issues in their development areas.
- 16 • The need for a 100-year assured water supply.

17 These are each matters where smaller utilities are generally less capable than larger ones;
18 moreover, Global has unique advantages in some of these areas, such as long-term water
19 sustainability. Thus, there are a multitude of reasons why a developer may pay a larger utility or
20 utility holding company to buy a smaller, less capable utility.

21 **E. Staff's implication that Global overpaid is erroneous.**

22 Staff seems to imply that ICFA's would not be needed to finance acquisitions, if Global
23 would only stop paying more than book value for utilities. But Mr. Hill explained that when
24 utilities have little or no rate base, it is necessary to pay the owners more than book value in order

25
26 ⁸² Tr. at 661-663.

27 ⁸³ Tr. at 801:15-22.

⁸⁴ Tr. at 801:8.

⁸⁵ Tr. at 836:9-17.

⁸⁶ Tr. at 837-838.

1 to convince the owner to sell. If the owner does not sell, they get an “operating margin” to provide
2 profit without their making any investment; in addition, the owners and their family and friends are
3 often on the payroll.⁸⁷ Mr. Hill testified that an owner in that situation will not sell unless the price
4 compensates them for their lost earnings and cash flow.⁸⁸ There is no evidence that Global
5 overpaid. Indeed, Mr. Hill testified that “we’ve attempted to drive the price down as low as
6 possible through prolonged and complex negotiations.”⁸⁹

7 Ms. Jaress seemingly agrees. She was presented with the following scenario:⁹⁰

- 8 • Utility has small rate base of \$1,000 [perhaps due to CIAC];
- 9 • Owner pays himself \$50,000;
- 10 • Owner’s spouse and relatives are paid salaries totaling \$100,000

11 Under this scenario, Ms. Jaress agreed that the owner would not sell for book value, or even ten
12 times book value.⁹¹ Ms. Jaress also agreed that “net present value” can be used to value a
13 business, and that the net present value of the income flowing to the utility’s owners in that
14 scenario is \$1.1 million.⁹² In reality, the purchase price is negotiated, and is ultimately determined
15 by a multitude of factors, including the cash flow impact to the seller.

16 **F. ICFA fees used for acquisitions should not be deducted from rate base.**

17 Global used the ICFA fees to pay for acquisitions. The money has been paid to the former
18 owners; it is not available for use in building infrastructure or any other use. The utilities Global
19 purchased had negligible rate bases when they were bought – therefore the entire purchase price
20 was essentially an acquisition premium.⁹³ The ICFA fees used for acquisitions should not be
21 deducted from rate base.

22 Although Staff argues that the ICFA fees were not used for acquisitions, they present no
23 evidence in support of that contention – only Staff’s unsupported conjecture as to why developers
24

25 ⁸⁷ Ex. A-8 (Hill Rebuttal) at 23:1-12.

26 ⁸⁸ Ex. A-8 (Hill Rebuttal) at 23:14-16.

27 ⁸⁹ Tr. at 915:11-14.

⁹⁰ Tr. at 813:20 to 814:4.

⁹¹ Tr. at 814:19 to 815:1.

⁹² Tr. at 815:8-17. (10 year period; assuming a 6% discount rate).

⁹³ Ex. A-13 (Rowell Rebuttal) at 24.

1 would pay ICFA fees. Obtaining a competent, credible utility is essential to development. Thus
2 developers are willing to pay for that benefit by helping fund an acquisition. The specific
3 provisions for acquisitions in some of the ICFAs show the importance of acquisitions to the
4 developers.

5 Moreover, while Ms. Jaress stands by Staff's unsupported conjecture, she also states that
6 her opinion will not change no matter what the evidence shows.⁹⁴ For example, she testified that
7 even if the developer payments were made to a separate, segregated account, "walled off from all
8 the company's other bank accounts" and those funds were used for something other than plant
9 (like an acquisition), she would treat the funds as though they were used for plant.⁹⁵ Ms. Jaress
10 even testified that developer funds should always be considered CIAC "regardless of what purpose
11 they were used for" and "regardless of how they are actually used."⁹⁶

12 Thus, Staff's recommendation is to ignore the evidence and pretend that money was used
13 for plant, no matter how much evidence shows it was used for something else. That extreme
14 recommendation should be rejected. Indeed, Staff's extreme recommendation conflicts with Ms.
15 Jaress' own testimony. For example, Ms. Jaress testified that a utility's revenue requirement
16 should remain the same regardless of how an acquisition premium is financed.⁹⁷ Yet under Staff's
17 proposal, an acquisition premium financed with ICFA fees reduces rate base and revenue
18 requirement. In addition, Ms. Jaress testified that if "funds from a developer are provided to a
19 utility holding company for a non-utility service, then it should not be treated as CIAC."⁹⁸ Here,
20 the ICFA funds were used to purchase utilities, rather than to provide utility service. Thus, under
21 Ms. Jaress' own formulation, these fees should not be treated as CIAC.

22 As Mr. Rowell testified, "the rate base of the utility shouldn't increase or decrease as a
23 result of an acquisition."⁹⁹ Indeed, the Commission's rules define original cost rate base as "the
24 cost of the property at the time it was first devoted to public service" not the cost at the time the

25 ⁹⁴ Tr. at 807:17-22 and 810:13-16.

26 ⁹⁵ Tr. at 811:9-17.

27 ⁹⁶ Tr. at 810:13-25.

⁹⁷ Tr. at 802-804.

⁹⁸ Tr. at 813:5-8.

⁹⁹ Tr. at 416:6-7.

1 utility is bought by a new owner.¹⁰⁰ Staff and RUCO concede that the original cost of a utility's
2 assets does not change as a result of an acquisition.¹⁰¹ Therefore, the rate base of an acquired
3 utility should not change as a result of the acquisition – even if the acquisition premium was
4 funded by ICFA fees.

5 **III. ICFAs allow Total Water Management, which is essential to Arizona's future.**

6 **A. TWM produces results.**

7 Staff's witness, Ms. Jaress, agreed that ICFAs enable Global to pursue Total Water
8 Management:

9 I think that the ICFAs make building regional plant easier.... [T]otal
10 water management, when it has to do with building plant way ahead
11 of growth might be difficult for Global to find financing for because
12 it's risky. We can see what happened with the Southwest Plant....
And if building plant for growth far into the future is part of total
water management, then I think that the ICFAs are part of that.¹⁰²

13 No party in the case disputed Global's results:

- 14 • 40% groundwater savings in the Maricopa region¹⁰³
 - 15 • An ADWR- and ADEQ-supported water plan for western Maricopa County.¹⁰⁴
 - 16 • Two billion gallons of groundwater saved in the Maricopa region.¹⁰⁵
 - 17 • Planned water savings of 60% in Belmont.¹⁰⁶
 - 18 • Global is the only utility in Arizona planning recycled water to the home.¹⁰⁷
 - 19 • Global is the only utility in Arizona implementing TWM.¹⁰⁸
- 20
21
22

23 ¹⁰⁰ A.A.C. R14-2-102.A.6.

24 ¹⁰¹ Ex. A-40, Staff Response to Global 2.24.a.; Tr. (Jaress) at 795:13-17; Tr. (Rigsby) at 661:20-
25.

26 ¹⁰² Tr. at 750:22 to 751:7.

27 ¹⁰³ Tr. at (Hill) at 194:13 to 195:15.

¹⁰⁴ See letters dated Nov. 16, 2009 by Karen Smith, Deputy Director ADWR and Nov. 19, 2009 by
Benjamin H. Grumbles, Director, ADEQ filed in Docket No. SW-20422A-06-0566.

¹⁰⁵ Ex. A-32.

¹⁰⁶ Tr. (Hill) at 197:13-20.

¹⁰⁷ Tr. (Rigsby) at 641.

¹⁰⁸ Tr. (Rigsby) at 641:11-17.

1 **B. Traditional approaches – like CIAC – don't work.**

2 The record shows that in the absence of ICFAs, the TWM approach is not likely to be
3 continued. Deploying infrastructure on a regional basis results in real efficiency and conservation
4 benefits.¹⁰⁹ However, the TWM approach also results in significant carrying costs.¹¹⁰ Without
5 some means of offsetting those carrying costs, implementing TWM is unlikely.¹¹¹ Staff and
6 RUCO argue that TWM can be implemented through traditional financing methods (AIAC and
7 CIAC),¹¹² but the record does not support this contention. As Mr. Rigsby testified:

8
9 Q. Okay. And can you tell me how many utilities in Arizona you are
10 aware of that plan on building recycled water to the home systems?

11 A. Global Utilities is the only one that I'm aware of at this time.

12 Q. Could you list each example of a utility building total water
13 management infrastructure using traditional financing methods that
14 you are aware of?

15 A. Well, as I said earlier, the only utility that I'm aware of that is
16 implementing total water management would be Global Utilities, so
17 they are the only ones that I'm aware of.¹¹³

18 While implementing TWM has real long-term benefits for the CC&N area as a whole, each
19 individual developer operating in the area has little incentive to spend the extra money on TWM
20 plant or to cooperate and coordinate with neighboring developers on a TWM-style plan.¹¹⁴ The
21 benefits of TWM accrue to the ratepayers and the utility at a point in the future when the
22 developers have left the scene. Therefore, developers have no concern over long-term costs.¹¹⁵ To
23 the extent developers have any control over the plant emplaced by the utility, it is unlikely that
24 TWM will be implemented.

25 ¹⁰⁹ Ex. A-13 (Rowell Rebuttal) at 16-22; Ex. A-24 (Symmonds Direct) at 11-24; Ex. A-7 (Hill
26 Rebuttal) at 7; Tr. (Hill) at 119, 145, 148, 197 and 257; Tr. (Rowell) at 326 and 353.

27 ¹¹⁰ Ex. A-12 (Rowell Direct) at 8-9; Tr. (Jaress) at 866.

¹¹¹ Ex. A-12 (Rowell Direct) at 12.

¹¹² Tr. (Rigsby) at 576.

¹¹³ Tr. (Rigsby) at 641:5-9 and 11-17.

¹¹⁴ Tr. (Hill) at 144, Ex. A-24 (Symmonds Direct) at 3.

¹¹⁵ Ex. A-24 (Symmonds Direct) at 3.

1 Traditional means of financing plant (AIAC and CIAC) tend to put developers in control of
2 what kind of plant is built.¹¹⁶ In the case of developer-built plant that is contributed to the utility,
3 the developer strongly influences the plant that is built.¹¹⁷ Since the developer has no long-term
4 responsibility for that plant, its incentive is to build the plant as cheaply as possible.¹¹⁸ While the
5 Staff and RUCO contend that it is possible to force developers to build TWM-style contributed
6 plant,¹¹⁹ Global's witnesses who actually have experience dealing with developers disagree and the
7 record contains no example of a utility that successfully relied on developer-contributed plant to
8 implement TWM.¹²⁰ Rather, the record shows that WMC, which relied heavily on contributed
9 plant, had utility systems that were (prior to the Global acquisition) in many respects inadequate.¹²¹
10 Advances (AIAC) are typically provided through a main extension agreement (MXA) and the
11 Commission's rules put serious limits on the extent to which MXAs can be used for TWM. The
12 Commission's MXA rule¹²² places strict limits on the extent that plant can be "oversized" – or in
13 better terms "regionalized" – which makes the use of MXAs impractical for implementing TWM.

14 The record contains no example of a utility that successfully used traditional financing
15 methods to implement the TWM model of sustainability through regionally-sized conservation-
16 focused infrastructure. RUCO's witness indicated that no Arizona utility (other than Global) has
17 implemented TWM. The one possible exception is Arizona-American which tried to use AIAC (in
18 Anthem) and CIAC (with its surface water treatment plant in the West Valley) to implement
19 regional water and wastewater solutions, but both of those attempts have been highly problematic
20 with significant rate impacts.¹²³

21 Even in instances when developers recognize that TWM is needed in a given area, the
22 ICFA approach is still necessary. In the Greater Tonopah area developers recognized that a TWM
23 approach was necessary. However, they also recognized that the existing utility was incapable of

24 ¹¹⁶ Tr. (Hill) at 258.

25 ¹¹⁷ Tr. (Hill) at 254 and 258.

26 ¹¹⁸ Tr. (Hill) at 260.

26 ¹¹⁹ Ex. S-11 (Jaress Surrebuttal) at 3, Tr. (Rigsby) at 551.

27 ¹²⁰ Tr. (Hill) at 143.

¹²¹ Tr. (Hill) at 260.

¹²² A.A.C. R14-2-406.

¹²³ Ex. A-11 (Rowell Direct) at 17-18.

1 implementing such an approach.¹²⁴ That is why they turned to Global and its ICFA model to
2 coordinate the planning for TWM-based water and wastewater infrastructure in that area. That is
3 why the ICFAs in that area were specifically designed to fund the *acquisition* of the WMC.¹²⁵ If
4 all the developers cared about was plant, as Staff contends,¹²⁶ than they would have simply
5 contributed plant to the WMC. Staff is unable to explain why the developers in that region
6 decided to back a Global acquisition rather than simply contributing plant to WMC.¹²⁷

7 The ICFAs are the cornerstone of Global's TWM approach. If the ICFA fees are treated as
8 contributions irrespective of any circumstances (as Staff and RUCO recommend), Global will be
9 unable to continue its commitment to TWM.¹²⁸ Without the ability to offset the carrying costs of
10 regionally-sized infrastructure, TWM will be financially unfeasible.¹²⁹ Similarly, without an offset
11 to the acquisition premiums required to purchase undercapitalized utilities, the acquisitions
12 necessary to make TWM a reality will not occur.¹³⁰

13 **C. ICFA fees should be used to offset the carrying costs of TWM facilities.**

14 The ICFA agreements themselves indicate that the ICFA fees are intended to approximate
15 the carrying costs of "interest and capitalized interest associated with the financing of
16 infrastructure for the benefit of the landowner..."¹³¹ Both Staff and RUCO acknowledge that
17 carrying costs are a real cost of emplacing infrastructure.¹³² Yet it is not clear why Staff and
18 RUCO contend that ICFA revenue should all be allocated to plant rather than to carrying costs. As
19 discussed above, Global has shown that utility facilities based on Total Water Management allow
20 for sustainable water use and enable significant reductions in per-capita water use. Because these
21 facilities must be constructed on a regional scale, it requires coordination with "a multitude of
22 developers", and building facilities when needed by the region (and not when requested by a

23
24 ¹²⁴ Tr. (Hill) at 63 – 64.

25 ¹²⁵ Ibid.

26 ¹²⁶ Tr. (Jaress) at 800.

27 ¹²⁷ Tr. (Jaress) at 836.

¹²⁸ Tr. (Hill) at 78.

¹²⁹ Ex. A-12 (Rowell Direct) at 10.

¹³⁰ Tr. (Hill) at 105.

¹³¹ Tr. (Jaress) at 851.

¹³² Tr. (Jaress) at 865; Tr. (Rigsby) at 651-652.

1 specific developer.)¹³³ This is not possible with main extension agreements, which are typically
2 limited to one developer. Moreover, because main extension agreements pay for specific pieces of
3 plant, the developers push for the cheapest possible plant and they also demand specific
4 entitlement to the pieces of plant they fund.¹³⁴ These problems do not occur with ICFA, which
5 are based on the carrying cost of the plant.

6 As Mr. Hill testified, “so we said, well, if we can get the developers out of the way, we can
7 get better infrastructure. We can capture economies of scale, which benefit all parties.”¹³⁵ In
8 addition, ICFA agreements allow Global to require developers to use recycled water on their
9 property – something that is unfortunately not required by state law or policy.¹³⁶ In order to do
10 this, Global uses the ICFA fees to cover some of the carrying costs of the regional plant until it can
11 be placed into service.¹³⁷ The Commission must make a policy decision whether these benefits are
12 sufficient reason to allocate the ICFA fees to carrying costs, or whether everything should go back
13 to “business as usual” with developer-controlled, expensive and unsustainable infrastructure.

14 Mr. Hill summarized the issue well – the ICFA “allowed me to figure out what should be
15 built, when it should be built, how it should be built, and then see everyone enjoy the benefit of
16 economies of scale and regional planning and sophisticated infrastructure that’s actually very
17 affordable to operate.”¹³⁸

18 **D. ICFA limit risk to the utility and its customer.**

19 Both Staff and RUCO claim that the ICFA model exposes utilities to more development
20 risk than do AIAC and CIAC.¹³⁹ However, the record does not support this contention. Global’s
21 model keeps development risk at the parent, not the utility, level and the ICFA provide a means
22 for Global Parent to fund the carrying costs of plant left out of rate base.¹⁴⁰ Thus, Global Parent is

24 ¹³³ Tr. (Hill) at 130:19-25 and 133:14-23.

25 ¹³⁴ Tr. (Hill) at 133:14-23; and 143:8-10.

26 ¹³⁵ Tr. at 145:2-5.

26 ¹³⁶ Tr. at 148:2-8.

27 ¹³⁷ Tr. at 59:19-24.

27 ¹³⁸ Tr. at 255:25-256:4.

¹³⁹ Ex. S-10 (Jaress Direct) at 13.

¹⁴⁰ Ex. A-7(Hill Direct) at 34.

1 able to shield the Global Utilities from development risk.¹⁴¹ This is exemplified by the Southwest
2 Plant which is held out of rate base (in spite of the fact that the Commission ordered Global to
3 build it) and its carrying costs are absorbed by Global Parent.¹⁴²

4 Further, the use of CIAC has not been shown to be an effective safeguard against
5 development risk. For example, Arizona-American's surface water treatment plant in the West
6 Valley was initially intended to be funded with hook-up fees treated as CIAC. But when
7 development slowed, the hook-up fees did not materialize and Arizona-American was forced to
8 seek rate-base treatment of the unused plant.¹⁴³

9 Additionally, the risk of development slowing or stopping is not the only risk that should
10 be considered. There is also the risk that development will be successful – if inefficient developer-
11 funded infrastructure is installed, customers will be footing the bill for higher operating costs for
12 the foreseeable future. But under Global's TWM approach, efficient regional infrastructure is
13 constructed, and ratepayers are protected from the higher long-term operating costs that are
14 associated with traditional forms of plant financing.¹⁴⁴

15 **IV. ICFA fees should not be treated as CIAC in this case.**

16 **A. The Global Utilities' capital structures are not abnormal.**

17 Staff argues that the lack of CIAC on Global's books indicates that Global is simply using
18 the ICFAs as a replacement for CIAC.¹⁴⁵ However, Global has shown that when AIAC and CIAC
19 are considered together, Global is not outside of the industry norm.¹⁴⁶ In fact, Palo Verde's and
20 Santa Cruz's combined AIAC and CIAC balances are just slightly below the average of the
21 industry sample.¹⁴⁷ This shows that the contention that the ICFA fees are merely a replacement for
22 CIAC is unfounded.

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25 ¹⁴¹ Tr. (Rowell) at 413.

26 ¹⁴² Ibid.

27 ¹⁴³ Ex. A-7 (Rowell Direct) at 18 – 19, Tr. (Hill) at 97-98.

¹⁴⁴ Tr. (Rowell) at 353.

¹⁴⁵ Ex. S-10 (Jaress Direct) at 12.

¹⁴⁶ Ex. A-13 (Rowell Rebuttal) at 9-10.

¹⁴⁷ Ibid.

1 Both AIAC and CIAC are developer-provided funds used to build plant. For regulatory
2 purposes they are usually treated the same way: they are both deducted from rate base and in
3 CC&N cases Staff has taken the position that the combined AIAC and CIAC balance should not
4 exceed a specified percentage of a utility's capital structure.¹⁴⁸ Additionally, over time un-
5 refunded AIAC converts to CIAC.¹⁴⁹ Thus, it is appropriate to consider AIAC and CIAC jointly,
6 as Staff concedes they should have done.¹⁵⁰ Staff also concedes that their analysis of this issue did
7 not consider how much CIAC is typically used to build backbone plant and how much converted
8 from AIAC.¹⁵¹ And, in fact, Global does use some CIAC. For example, Valencia - Town had
9 twice the amount of CIAC in 2008 as it did in 2006.¹⁵²

10 Staff acknowledges that the type of infrastructure deployed can affect a utility's operating
11 costs and that those costs are locked in for a long period of time.¹⁵³ Mr. Rowell demonstrated that
12 utilities built with the TWM approach have operating costs well below the average of a sample
13 group of Arizona utilities.¹⁵⁴ He also showed that utilities that rely on CIAC (e.g. Johnson) have
14 much higher operating costs.¹⁵⁵ Graphs from Mr. Rowell's testimony showing these dramatic
15 differences are attached as Attachment A.

16 In fact, an overreliance on CIAC leads to poor and inefficient infrastructure. It is notable
17 that the utility with the highest AIAC and CIAC balance in Global's comparative sample (Johnson
18 Utilities) also is by far the least efficient utility in the sample. Further, a comparison of Santa
19 Cruz, a water utility that Global built with the TWM approach, with Valencia, a water company
20 that Global purchased but that was built with the traditional CIAC-centric approach, reveals
21 several very obvious and measurable advantages of the TWM approach. Valencia's per customer
22 power costs, labor costs and consumables costs are all significantly higher than Santa Cruz's.¹⁵⁶

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24 ¹⁴⁸ Ex. A-13 (Rowell Rebuttal) at 11.

25 ¹⁴⁹ Ex. A-13 (Rowell Rebuttal) at 11.

26 ¹⁵⁰ Ex. A-45 at Staff Response to Global 2.2.a.

27 ¹⁵¹ Tr. (Jaress) at 873.

¹⁵² Tr. (Jaress) at 870.

¹⁵³ Tr. (Jaress) at 864.

¹⁵⁴ Ex. A-13 (Rowell Rebuttal) at 17-23.

¹⁵⁵ Ex. A-13 (Rowell Rebuttal) at 17-23.

¹⁵⁶ Ex. A-24 (Symmonds Direct) at 11 – 16.

1 The infrastructure decisions Valencia's former owners made (or more accurately that they ceded to
2 developers) have essentially doomed that utility to higher operating costs in perpetuity.¹⁵⁷

3 A recent report by the National Association of Water Companies described CIAC as an
4 "albatross around the neck" of water companies. The report indicated that overreliance on CIAC
5 can result in significant rate increases when the CIAC funded plant must be replaced and can lead
6 to the failure of small water companies.¹⁵⁸

7 **B. Only cost-free capital used to fund plant should be deducted from rate base.**

8 The Arizona Court of Appeals has held that the Commission may exclude CIAC from rate
9 base out of "notions of fairness and equitable treatment" because "it would be unfair to the
10 customer to be forced to pay a return to the utility upon an investment which was made by the
11 customer himself."¹⁵⁹ In other words, "where the customers and users of a utility have
12 substantially paid for the facilities employed in the public service" those amounts may be deducted
13 from rate base.¹⁶⁰ Thus, developer funds may be deducted from rate base when they provided
14 plant "facilities" used to provide service. Global entirely agrees with that principle. But where
15 developer funds are used for other purposes – such as acquisitions, or to pay parent-level expenses
16 – then there is no legal or economic rationale to deduct those funds from rate base. Doing so
17 wipes-out pre-existing rate base that was funded by investors. And if negative rate base is created,
18 the owner's future incentive to invest is also eliminated.

19 The Commission's rules recognize this important principle by stating that CIAC is created
20 only when developer funds pay for plant. The Commission's rules define "Contributions in aid of
21 Construction" (CIAC) as "Funds provided to the utility by the applicant under the terms of a main
22 extension agreement and/or service connection tariff, the value of which are not refundable."¹⁶¹
23 Because main extension agreements and service connection tariffs are tied to plant, the definition
24 of CIAC is based on the funds being provided for plant. No "service connection tariff" is at issue

25 ¹⁵⁷ Ex. A-24 (Symmonds Direct) at 17.

26 ¹⁵⁸ 2009 NAWC Water Policy Forum, Summary Report, April 2009 at 26.

27 ¹⁵⁹ *Cogent Pub. Serv., Inc. v. Ariz. Corp. Comm'n*, 142 Ariz. 52, 56-57, 688 P.2d 689, 702-703 (Ct.
App. 1984).

¹⁶⁰ *Id.* (quotation marks and citation omitted).

¹⁶¹ A.A.C. R14-2-401.8.

1 here. And a “main extension agreement” provides for “the estimated cost of all mains, including
2 all valves and fittings” and possibly “additional facilities... to provide pressure, storage or water
3 supply.”¹⁶² In other words, the funds provided under a main extension agreement are for plant
4 facilities. Indeed, the Commission defines a “main extension” as the “mains and ancillary
5 equipment necessary to extend the existing drinking water distribution system to provide service to
6 additional customers.”¹⁶³ In short, if it’s not for plant, it’s not CIAC.

7 Agreeing with this concept, Mr. Hill testified that if ICFA fees were used to fund plant,
8 they should be considered CIAC.¹⁶⁴ But ICFA used for other purposes should not be CIAC.

9 Both Staff and RUCO contend that the reason why CIAC is deducted from rate base is to
10 ensure that ratepayers do not pay a return on cost free capital.¹⁶⁵ The utilities Global purchased
11 had zero or negative rate base at the time of the purchase so the purchase price of the utilities is
12 essentially all an acquisition premium.¹⁶⁶ Since there is no acquisition adjustment in this case,
13 Global will earn no return on the acquisition premium.¹⁶⁷ Thus, to the extent that the ICFA fees
14 went to paying for the acquisitions, Global will not be receiving a return from ratepayers on those
15 ICFA fees.¹⁶⁸ So Staff and RUCO’s principal reason for deducting CIAC from rate base is not
16 present in this case.

17 **C. Negative rate base destroys incentive to invest.**

18 Staff recommends an extremely harmful “negative rate base” for Greater Tonopah. Staff
19 and RUCO believe that the Commission should find that money provided by developers to offset
20 acquisition costs should instead be turned into CIAC and deducted from rate base – to create a
21 highly negative rate base.

22 Commissioner Pierce, in his examination of Mr. Hill, hit directly upon the crux of the
23 problem that Staff and RUCO would exacerbate through this policy:

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25 ¹⁶² A.A.C. R14-2-406.B.

26 ¹⁶³ A.A.C. R14-2-401.14.

27 ¹⁶⁴ Ex. A-8 (Hill Rebuttal) at 22:4-12; Tr. at 46:13-47:9.

¹⁶⁵ Tr. (Rigsby) at 655; Ex. S-10 (Jaress Direct) at 13.

¹⁶⁶ Ex. A-13 (Rowell Rebuttal) at 24.

¹⁶⁷ Ex. A-13 (Rowell Rebuttal) at 25.

¹⁶⁸ Ex. A-13 (Rowell Rebuttal) at 26.

1 Q. ...how do distressed companies become distressed? It seems to me that
2 distressed companies can get over their head just because of a growth
3 factor. And it seems to me that if they don't have the ability to finance,
4 that then CIAC works for them until the day of reckoning when they
5 realize they don't have anything in rate base.

6 ... [t]hey are looking for that day when growth comes and they sell,
7 because they really don't have the ability to stay in business, do they?

8 A. They really don't.

9 Q. Okay.... you are right.... [t]hey have to be able to have something that
10 someone, a lending organization, can get their arms around and there is a
11 value attached to that so they can advance along. It boils down to that kind
12 of scheme, doesn't it?

13 A. It does.¹⁶⁹

14 Despite Commissioner Pierce's point, RUCO and Staff continue to believe that creating
15 negative rate base by turning ICFA revenues into CIAC would have no effect on investment
16 decisions. Mr. Rigsby explained his view of why a company with a negative rate base of \$5
17 million would invest in plant:

18 It would depend on what [the utility's] long-range goals are. If it
19 anticipates future growth in the area and it believes it needs to put in
20 needed plant, then it would go ahead and invest capital into it to
21 build that plant.¹⁷⁰

22 RUCO and Staff both seem to believe that companies will invest money to meet the
23 demands of growth even when the companies know for certain that they will not be allowed to
24 recover any portion of that investment, ever. Courts recognize that utilities invest capital in
25 utilities in order to earn a reasonable return.¹⁷¹ Even a cursory knowledge of global financial
26 markets shows that investors provide money for companies and for projects in order to earn a
27 reasonable return. Yet in this case, Staff and RUCO believe that companies will invest when they
28 know for certain that they will not earn any return, nor will they recover any portion of their
29 investment... ever.

30 Adopting Staff and RUCO's suggestion would mean that despite uncontroverted evidence
31 that Global Parent spent \$43 million acquiring utilities, and that it paid \$24 million to its members

32 ¹⁶⁹ Tr. at 105.

¹⁷⁰ Tr. (Rigsby) at 644:7.

¹⁷¹ *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 533-34, 578 P.2d 612, 614-15 (App. 1978).

1 to offset the tax liability from ICFA revenues, Global will have \$60 million worth of rate base
2 deductions forced into the Global Utilities. And Greater Tonopah will have a negative rate base of
3 \$4.2 million foisted on it.

4 Even if Global wanted to continue investing in Arizona after such an event, they would
5 confront the concern Commissioner Pierce alluded to: when a water company's ability to attract
6 capital is destroyed, its future is jeopardized.

7 In this case, Staff and RUCO jeopardize the future of the only water company in the state
8 pursuing Total Water Management, the only water company with a proven track record of massive
9 groundwater conservation, the only water company currently acquiring and integrating troubled
10 water companies. And they propose to do this because Global used developer money to acquire
11 and consolidate companies, and Global used developer money to shield customers from the used
12 and useful risk of regionally-sized, integrated water companies.

13 **D. The Generic Docket Staff Report does not control the treatment of ICFA fees.**

14 RUCO's direct testimony did not recommend treating ICFA fees as CIAC in this case.¹⁷²
15 RUCO also stated that it would consider allocating ICFA fees to acquisition costs "on a case by
16 case basis" looking to the public interest.¹⁷³ But in surrebuttal, RUCO changed position and
17 recommends imputing all of the ICFA fees as CIAC in this case. RUCO's witness, Mr. Rigsby,
18 stated that this was because RUCO had been unaware of the Staff Report in the Generic Docket¹⁷⁴
19 for non-traditional water financing.¹⁷⁵ Mr. Rigsby stated that based on a review of that Staff
20 Report, he believes that Global should have booked the ICFA fees as CIAC.¹⁷⁶

21 But RUCO was aware of the Generic Docket and participated in it.¹⁷⁷ Indeed, RUCO filed
22 comments in that docket.¹⁷⁸ And Mr. Rigsby testified that he had previously reviewed a copy of
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25 ¹⁷² Ex. RUCO-4 (Rigsby Direct) at 15:16-23.

26 ¹⁷³ Ex. A-37, RUCO Response to Global 2.2.

27 ¹⁷⁴ Docket No. W-00000C-06-0149.

¹⁷⁵ Ex. RUCO-7 (Rigsby Surrebuttal) at 6:10-13 and 11:12-15; Tr. at 674:15-24 and 675:11-13.

¹⁷⁶ Ex. RUCO-7 (Rigsby Surrebuttal) at 11:12-15; Tr. at 677:8-18.

¹⁷⁷ Tr. at 676:8-11.

¹⁷⁸ Ex. A-39.

1 RUCO's comments in that docket while working on another docket.¹⁷⁹ Thus, RUCO's claim of
2 ignorance of the Generic Docket is unfounded.

3 In addition, Mr. Rigsby's claim that the Staff Report decided the treatment of ICFA fees is
4 erroneous. The Staff Report twice stated that the treatment of ICFA fees should be made on a
5 "case-by-case basis."¹⁸⁰ In addition, Mr. Rigsby agreed that the Staff Report was only a
6 "preliminary evaluation."¹⁸¹ Moreover, the Staff Report recognized the benefits of ICFA's, stating
7 that "ICFA-type arrangements can provide appropriate long-term solutions which promote
8 conservation of water supplies and efficient wastewater utilization."¹⁸² Thus, the Staff Report was
9 much more nuanced and provisional than originally claimed by Mr. Rigsby.

10 Mr. Rigsby's claim that Global should have started booking the ICFA fees as CIAC once
11 the Staff Report was issued is also erroneous. As shown above, the Staff Report was a preliminary
12 evaluation that recommended case-by-case treatment of ICFA's, not a blanket statement that all
13 ICFA fees are CIAC. In addition, Mr. Rigsby conceded that the Commission has never issued a
14 decision in the Generic Docket, and that it is not clear what future steps, if any, will occur in the
15 Generic Docket.¹⁸³ He also conceded that he did not review another Staff document that Global's
16 auditors relied on.¹⁸⁴

17 Further, RUCO's surrebuttal position is inconsistent with its position in the Generic
18 Docket. In those comments, RUCO stated that "To the extent the services the parent provides to
19 the developer/municipal government are beyond those that are the obligation of the regulated
20 utility, the payment of such amount may be considered earned income when remitted to the parent
21 from the developer/government entity. In this case, such monies would be equity."¹⁸⁵ RUCO's
22 earlier comments in the Generic Docket, and in its Direct Testimony and data response, are more
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25 ¹⁷⁹ Tr. at 675:1-7.

26 ¹⁸⁰ Tr. at 678:4-25.

27 ¹⁸¹ Tr. at 679:22-680:2.

¹⁸² Tr. at 679:1-9.

¹⁸³ Tr. at 643:22-644:5; 680:15-22.

¹⁸⁴ Tr. at 680:23-681:11.

¹⁸⁵ Tr. at 676:19-24; Ex. A-39 at 3 (emphasis added).

1 thoughtful and appropriate than RUCO's categorical surrebuttal position that all ICFA fees are
2 CIAC regardless of use.

3 Staff agrees that the Staff Report in the Generic Docket is not binding, stating that it is only
4 a recommendation to the Commission.¹⁸⁶ Ms. Jaress also testified that the Staff Report in the
5 Generic Docket was only a preliminary evaluation.¹⁸⁷ Further, Ms. Jaress testified that ICFAs may
6 not be the same as the "Scenario 3" outlined in the Staff Report.¹⁸⁸ Lastly, Ms. Jaress testified that
7 the treatment of ICFA fees should be determined on a case-by-case basis.¹⁸⁹

8 **E. Staff's CIAC imputation is flawed.**

9 Staff assumes that all ICFA fees were used to fund plant. Staff therefore imputes all of the
10 ICFA fees as CIAC, as shown on Staff Surrebuttal Schedule LAJ-2. Staff's contention that ICFA
11 fees were used to fund plant is erroneous. But even if Staff could show that some ICFA fees went
12 to plant, its CIAC imputation as shown on LAJ-2 contains a number of clear errors. Staff assumes
13 that certain plant was funded by ICFA fees, even though undisputed evidence shows that the plant
14 was funded by Industrial Development Authority (IDA) debt or Advances in Aid of Construction.
15 Staff also fails to allocate any of the ICFA fees to acquisitions, even though evidence demonstrates
16 that ICFA fees were a key source of funding for acquisitions. Staff also errs by imputing gross
17 ICFA revenues, rather than after-tax net income from ICFAs. Staff's assumption that the ICFA
18 revenues can be generated without expenses or taxes is implausible and contrary to the record.
19 These errors render Staff's CIAC imputation hopelessly flawed. Moreover, Staff also fails to
20 consider the carrying costs associated with regional, sustainable total water management facilities.

21 Staff allocation of ICFA fees to Global's plant ignores the following undisputed facts: (1)
22 some of the plant existed before the ICFA fees were collected, and could not have been funded by
23 those fees; (2) some of the plant was funded with IDA debt, which is specifically tied to each piece
24 of infrastructure funded; (3) some of the plant was funded with AIAC. For example, Staff

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27 ¹⁸⁶ Ex. A-45, Staff Response to Global 2.16.

¹⁸⁷ Tr. at 860:2-5.

¹⁸⁸ Tr. at 862:8-19; Ex. A-51.

¹⁸⁹ Tr. at 861:9-17.

1 allocated \$7 million in ICFA fees to Greater Tonopah's plant.¹⁹⁰ But Ms. Jaress concedes that
2 Greater Tonopah has only \$4.7 million in net plant.¹⁹¹ Thus, Ms. Jaress assumes that \$7 million in
3 ICFA fees funded \$4.7 million in plant. That is not mathematically possible. Ms. Jaress agrees
4 that if Greater Tonopah's net plant is \$4.7 million, then "\$4.7 million is the maximum that could
5 have been spent on Water Utility of Greater Tonopah's plant."¹⁹² Thus Ms. Jaress was reduced to
6 speculating that the remaining \$2.3 million "will be" used to build future plant.¹⁹³ Ms. Jaress
7 offers no evidence to support that speculation. If that speculation were true, there should be an
8 extra \$2.3 million sitting in a Global bank account somewhere. That is not the case. The reason is
9 simple: that money funded the acquisition and was paid to the former owners of WMC.

10 **1. Pre-existing plant and plant funded with AIAC.**

11 Ms. Jaress agreed that some of Greater Tonopah's \$4.7 million in net plant existed "before
12 Global purchased that utility" and thus "could not have been financed with ICFAs."¹⁹⁴ In addition,
13 Ms. Jaress conceded that of the \$4.7 million in net plant, \$1.2 million was paid for by advances.¹⁹⁵

14 The \$4.7 million in plant existed before Global acquired Greater Tonopah. And some of it
15 was financed with advances. Yet Staff eliminates that plant by treating all of it as if it was funded
16 by ICFA fees. Indeed, Staff goes further and allocates \$7 million in ICFA fees against this \$4.7
17 million in plant, thereby creating a negative rate base of several million dollars.

18 Similar issues exist with Staff's allocation of ICFA fees to Palo Verde and Santa Cruz. For
19 example, Ms. Jaress conceded that Palo Verde had \$27.4 million in advances, and that Santa Cruz
20 had \$33.7 million in advances.¹⁹⁶

21 **2. Plant funded with IDA bonds.**

22 In addition, Global has \$115 million in IDA bonds that were used to construct plant for
23 Palo Verde and Santa Cruz.¹⁹⁷ Ms. Jaress testified that the bonds must be used "to construct

24 ¹⁹⁰ Ex. S-11 (Jaress Surrebuttal) at Ex. LAJ-2. Exact number = \$7,085,645.

25 ¹⁹¹ Tr. at 828:1-10.

26 ¹⁹² Tr. at 829:2-6.

27 ¹⁹³ Tr. at 825:9-11.

¹⁹⁴ Tr. at 828:15-24.

¹⁹⁵ Tr. at 830:2-6.

¹⁹⁶ Tr. at 830:14-831:19.

¹⁹⁷ Tr. (Jaress) at 771:22-24; *see also* Ex. A-12 (Rowell Direct) at 23-26.

1 specified facilities.”¹⁹⁸ Mr. Rowell testified, “the IDA bonds must be tied to specific infrastructure
2 projects by the very nature of IDA bonds.”¹⁹⁹ Global proposed imputing the low-cost IDA debt to
3 Santa Cruz and Palo Verde as part of their capital structures.²⁰⁰ Imputing the parent-level IDA
4 debt is unorthodox ratemaking, but Global proposed it to help protect customers.²⁰¹ Mr. Rowell
5 testified that without this direct link between the parent-level bonds and the specific utility
6 infrastructure, it would not be appropriate to impute the IDA bonds to Palo Verde and Santa
7 Cruz.²⁰² Ms. Jaress agreed.²⁰³ This direct link between the IDA bonds and the specific
8 infrastructure projects demonstrates that those projects were funded by IDA bonds, and thus could
9 not have been funded by ICFA fees.

10 In addition, Global incurs annual payment obligations of more than \$8 million on the \$115
11 million in IDA debt.²⁰⁴ Staff’s allocation of \$49.9 million in ICFA fees against Palo Verde’s and
12 Santa Cruz’s plant will prevent Global from placing a significant amount of the \$115 million in
13 IDA-funded plant into ratebase, thus imperiling Global’s ability to make the payments on the debt
14 that funded the plant.

15 Global excluded the “Southwest Plant” from rate base. The plant cost \$32 million.²⁰⁵ Of
16 that \$32 million, \$26.8 million was funded directly by IDA bonds.²⁰⁶ Ms. Jaress agreed there was
17 no evidence that the Southwest Plant was not funded with IDA debt.²⁰⁷ Yet Staff treats the entire
18 \$32 million as CIAC.²⁰⁸ If approved, that would prevent Global from ever including that plant in
19 rate base in the future. Moreover, Global has made \$13.6 million in payments on the portion of the

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¹⁹⁸ Tr. at 771:6-8; *see also* Tr. (Hill) at 49:23-50:10.

¹⁹⁹ Tr. at 416:13-15.

²⁰⁰ Ex. A-12 (Rowell Direct) at 23-26.

²⁰¹ Ex. A-12 (Rowell Direct) at 26:7-21.

²⁰² Tr. at 416:20-25.

²⁰³ Tr. at 770:24-771:1.

²⁰⁴ Ex. A-9 (Hill Rejoinder) at Ex. 4 (under “Total Debt Service”).

²⁰⁵ Ex. A-9 (Hill Rejoinder) at 17:4; exact number is \$32,391,318.

²⁰⁶ Ex. A-9 (Hill Rejoinder) at 17:5-6.

²⁰⁷ Tr. at 771:13-15.

²⁰⁸ Ex. S-11 (Jaress Surrebuttal) at Ex. LAJ-2.

1 bonds related to the Southwest Plant, and that it will continue to incur \$2 million in payment
2 obligations per year for the Southwest Plant.²⁰⁹

3 **F. Parent Level Expenses Offset.**

4 Ms. Jaress agreed that “the matching principle is an important principle” of ratemaking.²¹⁰
5 She also agreed that under the matching principle, “revenues should be matched with expenses.”²¹¹
6 Staff imputes Global Parent’s ICFA-related revenues to the utilities, but they do not impute Global
7 Parent’s ICFA-related expenses.²¹² Considering only revenues, and ignoring the related expenses,
8 violates the matching principle and provides a distorted and inaccurate picture. Indeed, Ms. Jaress
9 testified that only the “net operating income” (i.e. revenue minus expenses) is “available to invest
10 in the subsidiaries” as plant.²¹³ Mr. Rowell testified that under the matching principle, the ICFA
11 expenses must be deducted from the ICFA revenues before any imputation of CIAC is made.²¹⁴
12 As he explained, Staff’s approach is “unbalanced” because “Staff has ignored all the expenses
13 borne by Global Parent, although they have removed essentially all of Global Parent’s
14 revenues.”²¹⁵ Global Parent had \$9.13 million in such expenses in 2008 alone.²¹⁶

15 **G. Tax offset.**

16 Staff’s allocation is based on total ICFA revenues, assuming that all those revenues went to
17 plant. Yet revenues cannot be invested in plant. Global Parent could invest in plant only after it
18 pays its expenses and satisfies its tax liabilities. Mr. Rigsby aptly illustrated the point by stating
19 that he would only have money to invest after he pays his expenses and taxes.²¹⁷ Global has
20 demonstrated that the ICFA fees generated a real tax liability. Therefore, the ICFA fees cannot be
21 considered to be “cost free” capital.²¹⁸ Only the amount of ICFA funds left after distributions for
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23 ²⁰⁹ Ex. A-9 (Hill Rejoinder) at 17:13-18.

24 ²¹⁰ Tr. at 778:18-21.

25 ²¹¹ Tr. at 779:2-3.

26 ²¹² Tr. at 780:16-21.

27 ²¹³ Tr. at 780:8-15.

²¹⁴ Ex. A-13 (Rowell Rebuttal) at 35:13-26; Ex. A-15 (Rowell Rejoinder) at 6-7; Tr. at 325:2-10.

²¹⁵ Ex. A-15 (Rowell Rejoinder) at 7:7-10.

²¹⁶ Ex. A-15 (Rowell Rejoinder) at 6:17-22.

²¹⁷ Tr. at 666:19 to 667:8.

²¹⁸ Ex. A-13 (Rowell Rebuttal) at 13:21-25.

1 tax purposes (and other offsetting expenses) would have been available for utility purposes. Thus,
2 any imputation of CIAC based on the ICFA revenue must be based on the after-tax amount of
3 ICFA revenue.²¹⁹ Staff concedes that the ICFA revenues generate a tax liability that Staff did not
4 consider in formulating their recommendation.²²⁰

5 Staff argues that the tax liability should not be recognized because the members of the
6 Global Parent might have offsetting tax losses arising from other business interests.²²¹ That issue
7 exists for every holding company structure – Arizona’s two largest electric utilities, APS and TEP
8 both face that situation, but the Commission doesn’t ignore the tax consequences of APS and TEP
9 revenues by pointing out that Pinnacle West or UniSource may have an affiliate-created tax offset.
10 Staff and RUCO’s analyses are flawed because Global Parent’s revenues generate a tax liability
11 for the members irrespective of potential offsetting tax credits.²²²

12 Staff also cites Global’s choice of corporate structure as a reason for not netting the tax
13 liability out of the CIAC imputation.²²³ However, Global’s choice of corporate structure is
14 irrelevant because even if Global Parent was organized as a corporation instead of an LLC, the
15 ICFA fees would still generate the tax liability.²²⁴

16 Global has demonstrated that the ICFAs are not simply a replacement for CIAC since they
17 were not used to fund plant thus Staff’s argument here is flawed. Had Global relied on traditional
18 (tax free) CIAC and abandoned the ICFA model it would not of been able to implement its TWM
19 strategy.²²⁵

20 **V. Rate of Return.**

21 **A. Capital Structure.**

22 In its Direct Testimony Global proposed imputing the IDA debt associated with Palo
23 Verde’s and Santa Cruz’s plant construction into those utilities capital structures. This results in
24

25 ²¹⁹ Ex. A-15 (Rowell Rejoinder) at 3.

26 ²²⁰ Tr. (Jaress) at 781:1-9.

27 ²²¹ Ex. S-11 (Jaress Surrebuttal) at 4.

²²² Ex. A-15 (Rowell Rejoinder) at 3.

²²³ Ex. S-11 (Jaress Surrebuttal) at 4.

²²⁴ Ex. A-15 (Rowell Rejoinder) at 3.

²²⁵ Ex. A-15 (Rowell Rejoinder) at 4.

1 capital structures of 45% debt for Palo Verde and 44% debt for Santa Cruz.²²⁶ While imputing
2 parent-level debt is not generally considered to be appropriate, Global made this adjustment in
3 order to increase the amount of debt in the capital structure and thus bring down the overall rate of
4 return (mitigating the overall rate increase.)²²⁷ Staff agrees with Global's proposed capital
5 structure for Palo Verde and Santa Cruz,²²⁸ but RUCO recommends a hypothetical composite
6 capital structure of 38% debt and 62% equity for all of the utilities in this rate case.²²⁹

7 For the other utilities involved in this rate case, Global initially proposed using their actual
8 capital structures.²³⁰ In Rebuttal Testimony, Global proposed the compromise position of adopting
9 RUCO's recommended 38/62 capital structure for these utilities.²³¹

10 Staff recommends hypothetical capital structures for Valencia – Town, Valencia – Greater
11 Buckeye, and Willow Valley. Staff derived its hypothetical capital structures by removing the
12 acquisition premiums from the equity balances of those utilities.²³² Global does not agree with
13 these adjustments but notes that it is ironic that Staff would net the acquisition premiums against
14 the companies' equity balance but chose not to net the acquisition premium against their
15 recommended CIAC imputation.²³³

16 **B. Cost of Debt.**

17 For Palo Verde and Santa Cruz Global proposes using the actual weighted interest cost
18 associated with the imputed IDA bonds as the cost of debt for these utilities (6.34% and 6.57%
19 respectively.)²³⁴ For the other utilities involved in this rate case Global has agreed to the use of
20 RUCO's composite cost of debt of 6.44%.²³⁵

21
22
23 ²²⁶ Ex. A-12 (Rowell Direct) at 24-25.

24 ²²⁷ Ex. A-12 (Rowell Direct) at 26.

25 ²²⁸ Ex. S-10 (Jaress Direct) at Exhibit LAJ-3.

26 ²²⁹ Ex. RUCO-4 (Rigsby Direct) at 51.

27 ²³⁰ Ex. A-12 (Rowell Direct) at 27.

²³¹ Ex. A-12 (Rowell Rebuttal) at 40.

²³² Ex. S-10 (Jaress Direct) at 27 and 28.

²³³ Ex. A-13 (Rowell Rebuttal) at 39.

²³⁴ Ex. A-12 (Rowell Direct) at 30.

²³⁵ Ex. A-13 (Rowell Rebuttal) at 40.

1 **C. Cost of Equity.**

2 Global proposed a 10% cost of equity based on Staff's cost of equity recommendation in a
3 recent case.²³⁶ This cost of equity proposal is also consistent with even more recent Staff cost of
4 equity recommendations,²³⁷ and with the Commission's Decision in the Chaparral City Water rate
5 case.²³⁸ Global proposed this cost of equity to reduce the issues in dispute, and thus reduce the
6 expense for all parties involved in the case. Staff agrees with Global's cost of equity because it is
7 similar to recent Commission-approved costs of equity and because the Commission rarely if ever
8 makes big leaps in its cost of equity determinations over a short period of time.²³⁹ Staff also noted
9 that Global's cost of equity proposal resulted in a "savings of time and money ... without
10 compromising a reasoned recommendation." ²⁴⁰

11 RUCO does not agree with Global's proposed cost of equity or with the method used to
12 develop it. While RUCO's commitment to theoretical purity is admirable, we note that the
13 Commission has rejected RUCO's cost of equity recommendations on numerous occasions.

14 **D. Operating Margin.**

15 Staff's and RUCO's recommendation to treat all ICFA revenue as CIAC results in a
16 massively negative rate for Greater Tonopah. A negative rate base requires that rates be set on an
17 operating margin basis, and Staff recommends a 10% operating margin.

18 Global strongly disagrees with Staff's proposed CIAC imputation and thus does not
19 support Staff's proposed negative rate base for Greater Tonopah. Even if the Commission accepts
20 Staff's argument regarding the ICFA fees, it is not necessary to drive Greater Tonopah's rate base
21 below zero in order to protect its ratepayers from paying a return on (allegedly) cost free capital.
22 This is because no return is ever earned on the negative portion of a utility's rate base.²⁴¹

23 However, if the Commission ultimately decides to accept Staff's CIAC imputation, Global
24 agrees with the use of an operating margin of 10%.

25

²³⁶ Ex. A-16.

26 ²³⁷ Ex. A-17 and Ex. A-18.

27 ²³⁸ Ex. A-19.

²³⁹ Tr. (Jaress) at 758:12-19.

²⁴⁰ Tr. (Jaress) at 768:24-25.

²⁴¹ Ex. A-13 (Rowell Rebuttal) at 29.

1 **VI. Rate Design.**

2 **A. Rebate Threshold Rate (RTR) Principles.**

3 A 21st century rate design must accomplish two goals: ensuring that utilities remain
4 financially viable enterprises, and encouraging conservation. In the end, the role of rate design in
5 conservation is to get consumers to think about the *next* gallon and make an active choice in that
6 regard: Should I use it or conserve it?

7 The Rebate Threshold Rate (RTR) structure achieves both goals. Staff's rate design
8 achieves neither. The RTR places cost control in the hands of the consumer, and offers
9 meaningful incentives to conserve. The RTR also encourages the utility to develop and implement
10 conservation practices – a common omission in many rate designs. Staff's rate design perpetuates
11 the status quo and will discourage conservation.

12 **1. Encouraging the Consumer to Conserve**

13 We cannot expect that consumers will conserve when increases in their consumption
14 patterns generate financially insignificant impacts. A 2007 Pioneer Institute paper on water
15 conservation practices finds "strong empirical evidence that using prices to manage water demand
16 is more cost-effective than implementing non-price conservation programs. Price-based
17 approaches also have advantages in terms of monitoring and enforcement."²⁴² RUCO concurs
18 with this assessment.²⁴³ Staff's rate design fails in this regard:

19 1. Price signals for residential consumers which do not communicate the increasing
20 scarcity and increasing value of water resources in Arizona. For example, compared to Global's
21 rate design, Staff's rate design for Santa Cruz has lower volumetric charges for higher consumers,
22 and higher volumetric charges for lower consumers.²⁴⁴ This sends the wrong price signal.

23 2. Higher tier users have less of a financial incentive to adjust their consumption.²⁴⁵

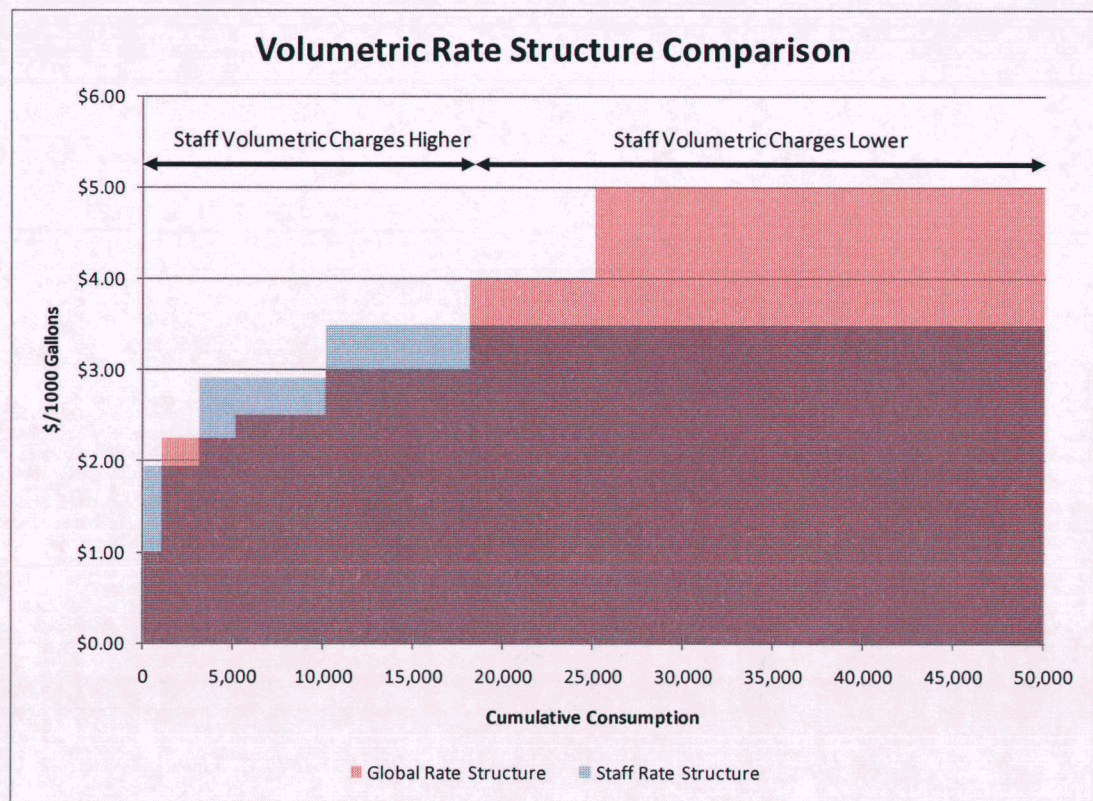
24 3. No financial incentive to conserve beyond 10,000 gallons of consumption.²⁴⁶

25 ²⁴² Olmstead, S.M., Stavins, R.N., *Managing Water Demand – Price vs. Non-Price Conservation*
26 *Programs*, Pioneer Institute, July 2007.

27 ²⁴³ Tr. at 582:10-12.

²⁴⁴ See Ex. S-9 (Eaddy Surrebuttal) at Amended Schedule DRE-3 and Santa Cruz Final Schedule
H-3.

²⁴⁵ Ex. A-26 (Symmonds Rate Design Rebuttal) at 11:16-19.



2. Encouraging the Utility to Conserve

Under Staff's rate design, decreases in consumption result in disproportionate reductions in revenue. Because Global has committed to reducing demand through its DSM program, we know from the outset that this demand destruction will have an impact on future revenues.²⁴⁷ Under Staff's rate design, the revenue reduction will be disproportionate. If the DSM program reduces non-potable (raw) water demand by 25% (a 4.6% reduction in total sold volume²⁴⁸), under Staff's rate design, Santa Cruz would realize only 89% of Staff's revenue requirement.²⁴⁹ Under the same conditions, using Global's rate design and revenue requirement, Santa Cruz would realize 95%²⁵⁰ of its revenue requirement. So a 4.6% reduction in consumption results in an 11% reduction in revenue under Staff's model. But under Global's model, a 4.58% reduction in consumption only results in a 5% reduction in revenue, as shown in the graph below.

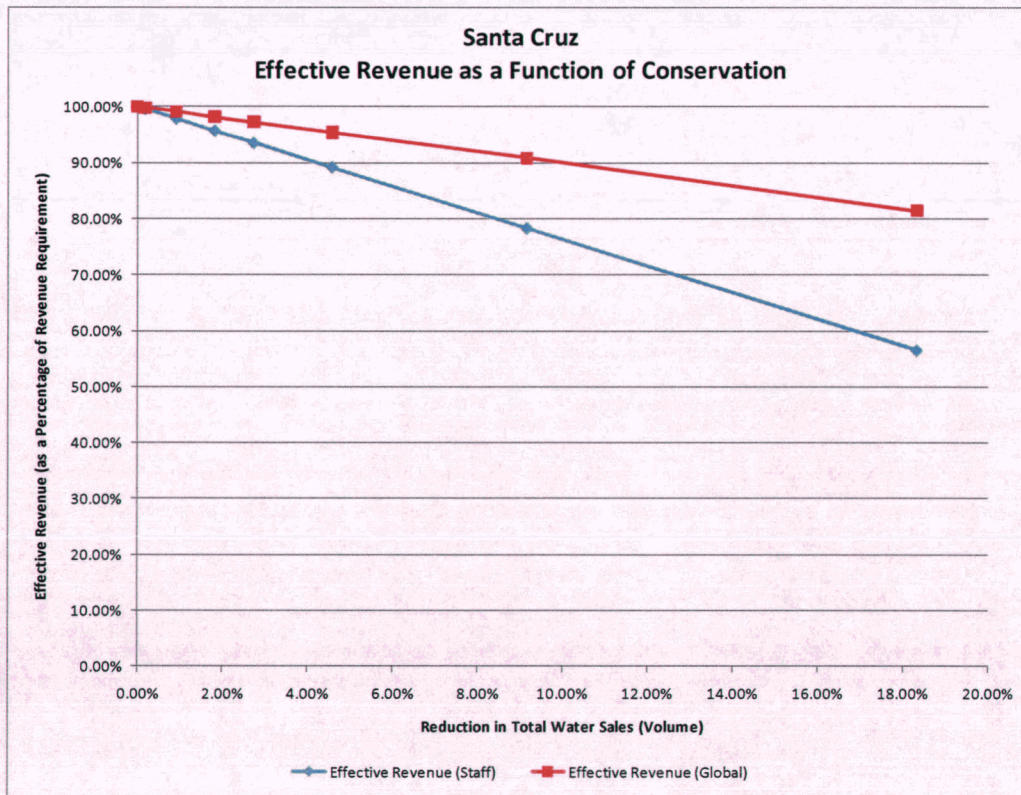
²⁴⁶ Ex. A-26 (Symmonds Rate Design Rebuttal) at 11:20-22.

²⁴⁷ Tr. at 486:11-15.

²⁴⁸ Derived from data in Global Santa Cruz Final Schedules (all H-series)

²⁴⁹ Derived from Eaddy Surrebuttal Working Paper: "Santa Cruz Bill Count.xls", tab: "Staff Recommended Rate Design."

²⁵⁰ Derived from Global Santa Cruz Final Schedule H-1, Col B.



Raw water rates should be increased from \$0.31/1000 to \$2.00/1000 gallons.²⁵¹ But in addressing that issue, Staff's rate design creates an unintended consequence – that Staff has placed a significant proportion of the revenue in a classification that Global has already committed to reducing through DSM²⁵² and has already committed to deferring any rate increase by phasing in the rate increase over 5 years.²⁵³ Staff's rate design discourages the utility from conserving. Thus, Global cannot support it. Only Global's RTR rate design achieves both conservation and financial stability.

B. The current rate design results in waste.

All parties agree that the current rate design is inadequate. Flat rates for water do nothing to encourage conservation – for either the consumer or the utility. Low recycled water and raw water rates have contributed to a culture of inefficiency for some consumers. Mr. Hill described these inefficiencies: “what we found is systemic and extreme.... We have found that HOAs are

²⁵¹ Tr. 706:17-19.

²⁵² Ex. A-25 (Symmonds Rebuttal) 16:7 to 22:5

²⁵³ Ex. A-26 (Symmonds Rate Design Rejoinder) at 4:17-20.

1 overwatering, in some cases, turf by more than 500 percent.”²⁵⁴ He also testified that “we found
2 countless cases of watering during the middle of summer days, watering on raining days, and
3 watering in excess of the demands of that surface cover.”²⁵⁵ These inefficiencies were further
4 highlighted in Global’s rejoinder testimony.²⁵⁶

5 **C. Six-tier rate design.**

6 The whole point of the six-tier rate design is to provide incentives to conserve. With more
7 “break-points”, a customer is more likely to have a lower tier realistically within reach. In
8 contrast, under a three-tier system, many customers have no incentive to conserve because they are
9 too far away to realistically be able to reach the next lowest tier.

10 At the hearing, Mr. Symmonds said he was not aware of any other utilities in Arizona with
11 six-tiers.²⁵⁷ Subsequently, he discovered that Kachina Village Improvement District (KVID) uses
12 a six-tier system.²⁵⁸

13 RUCO agrees with Global’s proposed six-tier system.²⁵⁹ Further, Staff’s witness testified
14 that “Staff does not have major issues with the six-tier system.”²⁶⁰ Moreover, Staff’s rate design
15 only applies a three-tier system to residential consumers. Commercial, industrial, irrigation and
16 HOA customers are provided only two-tiers.²⁶¹ The implications are profound – higher-use
17 consumers (commercial etc) are not afforded any incentive to conserve after exceeding the first
18 tier.

19 In absolute terms, the RTR is a simpler tariff (all classes are treated equally), and the
20 consumers are going to have a change regardless. The questions are: are we going to engage the
21 consumer – philosophically and financially – in the conservation of water resources?²⁶² And, are
22 we going to provide customers with greater opportunities to ‘reach a lower rate’ by creating

23
24 ²⁵⁴ Tr. at 38:16-22.

25 ²⁵⁵ Tr. at 38:16-22.

26 ²⁵⁶ Ex. A-27(Symmonds Rejoinder Testimony) at Symmonds Exhibit 1.

27 ²⁵⁷ Tr. 518:1-3

²⁵⁸ <http://www.kachinawater.com/view/46>.

²⁵⁹ Ex. RUCO-5 (Rigsby Rate Design Direct) at 8:14-19.

²⁶⁰ Tr. at 708:2-7.

²⁶¹ Ex. S-8 (Eaddy Rate Design Direct) at Staff Surrebuttal Schedule DRE-3, page 1of 3.

²⁶² Tr. at 513:18-25 and 514:107.

1 smaller tiers, as the Global six-tier system does? Switching from a flat rate program to a true
2 conservation-oriented rate structure like the RTR is an ideal opportunity for the Commission to
3 reinforce its water conservation message.

4 **D. Volumetric Rebate.**

5 The volumetric rebate allows for residential customers who achieve real, immediate
6 reductions in water consumption to realize an immediate reduction in their volumetric charges.²⁶³
7 This process works by establishing a rebate threshold volume. Any time a customer achieves a
8 consumption level below that of the rebate threshold, that customer is entitled to receive a
9 reduction in volumetric charges (commodity charges). That reduction is calculated for each utility
10 and ranges from 45% to 65%.

11 The Rebate Threshold Rate structure is a significant step forward from a water
12 conservation perspective. It also offers customers the practical option of being able to manage
13 their usage to achieve real reductions in costs. The rebate threshold allows for many people to
14 receive reductions in their monthly costs. In fact, by simply saving 770 gallons per month by
15 moving from 7768 gallons per month to 7000 gallons per month, a customer meeting the Rebate
16 Threshold in Santa Cruz can save \$11.67 per month – or \$140.04 per year.²⁶⁴ If all consumers
17 could achieve the rebate threshold, the Global Utilities could save 400 million gallons of water
18 annually.²⁶⁵

19 **E. Monthly minimums.**

20 Global and RUCO agree that an increase in monthly minimums is appropriate.²⁶⁶ The
21 differences between Global and RUCO are driven by the different revenue requirements. Staff's
22 approach actually perpetuates a common problem with rate designs – the disincentive for the
23 utility to promote conservation. By maintaining monthly minimums at their current level, Staff
24 ignores the fact that fixed costs as well as variable costs have gone up in the period since the
25 Global Utilities had their rates established by the Commission. Staff is saying – we want you, the

26
27 ²⁶³ Ex. A-24 (Symmonds Direct) at 37.

²⁶⁴ Ex. A-25 (Symmonds Direct) at 44:7-18.

²⁶⁵ Ex. A-24 (Symmonds Direct) at 46:6-13.

²⁶⁶ Ex. RUCO-5 (Rigsby Rate Design Direct) at 8:14-18.

1 utility, to conserve but you have to do that on the basis of costs from 1999. This is unsupportable.
2 If the utility is successful in its conservation messaging (and we should note that conservation is
3 not “cheap”²⁶⁷), then its reward is less revenue, and by extension, less money in retained earnings,
4 which translates to less investment in conservation infrastructure.

5 **F. West Valley consolidation.**

6 Global proposes consolidating rates for its three West Valley utilities: Greater Tonopah,
7 Valencia – Town, and Valencia – Greater Buckeye.²⁶⁸ These utilities are served out of the same
8 regional office, and share many common costs.²⁶⁹ Under Global’s proposed revenue requirements,
9 Greater Tonopah faces significant rate increase. Thus, it makes sense to consolidate Greater
10 Tonopah’s rates with those of the two Valencia divisions. Doing so will provide significant
11 benefits to Greater Tonopah, while consolidation will not significantly impact the customers of the
12 two Valencia divisions.²⁷⁰ Combined, the three utilities have 6,000 customers, and the
13 infrastructure costs can be spread across this larger customer base.²⁷¹ As Mr. Rowell explained,
14 consolidation is justified under the consolidation factors Staff has used in recent cases.²⁷²
15 However, if Staff’s and RUCO’s revenue requirements for Greater Tonopah are adopted, then
16 consolidation is likely not justified.

17 The EPA and NARUC joint report *Consolidated Water Rates: Issues and Practices in*
18 *Single-Tariff Pricing* states that the short term goals for rate consolidation focus on “enhancing the
19 financial capacity of water systems and making rates more affordable for water customers” while
20 the long term goals are “consolidating the management and operation of water systems.”²⁷³

21 Both goals are served in this case. Consolidation will directly address affordability issues
22 for Greater Tonopah’s customers. In addition, these three utilities (along with two others) were
23 acquired by Global Water in 2006, and allowing rate consolidation after an acquisition will

24
25 ²⁶⁷ Ex. A-24 (Symmonds Direct) at 10:11-26 and 11:1-15.

26 ²⁶⁸ Ex. A-12 (Rowell Direct) at 3:14-17.

27 ²⁶⁹ Ex. A-14 (Rowell Rate Design Rebuttal) at 3:4-8.

²⁷⁰ Ex. A-14 (Rowell Rate Design Rebuttal) at 10:12-17.

²⁷¹ Ex. A-14 (Rowell Rate Design Rebuttal) at 2:17-19.

²⁷² Ex. A-14 (Rowell Rate Design Rebuttal) at 2-6.

²⁷³ Consolidated Water Rates: Issues and Practices in Single-Tariff Pricing (Sept. 1999).

1 promote future acquisitions. As the Joint EPA / NARUC report explained, "Single-tariff pricing
2 can be an incentive for larger water utilities to acquire small water systems that lack capacity
3 because it makes it possible to spread costs over a larger service population."²⁷⁴ The report also
4 comments that "pricing is intrinsically related to structural change in the water industry" and that
5 pricing policies like rate consolidation "ultimately will play a role in shaping the future structure of
6 the water industry, including but not limited to the future of small water systems."²⁷⁵ Given the
7 structure of the water industry in Arizona (numerous small utilities), the need for such policies is
8 urgent.

9 **G. Construction meter issue.**

10 Global and Staff disagree on whether a construction water consumer should pay a monthly
11 minimum in addition to the volumetric charge. Construction customers have meters, and thus they
12 cause capacity and administrative costs justifying a monthly minimum. As Mr. Symmonds
13 explained, "a 2 [inch] construction meter can place tremendous instantaneous demands on the
14 distribution system.... The fixed monthly fee assists the utility in providing this "capacity" to the
15 construction customer."²⁷⁶

16 **H. Miscellaneous Tariffs.**

17 **1. Meter Exchange Fee.**

18 Meter size is determined by the home builder based on flow and pressure requirements. At
19 initial installation, the home builder requests a meter of sufficient size to ensure acceptable flow
20 and pressure throughout the operational envelope.²⁷⁷ Global and Staff²⁷⁸ have recommended the
21 creation of a Customer Meter Exchange Fee (Size) that applies when a homeowner requests that
22 the meter be changed to a different size. Under this tariff, the homeowner will be responsible for:

- 23
24 1. Determining the appropriate size of meter. Further, the home owner agrees to hold
25 harmless and release Global Water, its affiliated companies together with the employees,
agents and assigns of such companies from any responsibility for direct or collateral

26 ²⁷⁴ Ibid, at iv.

27 ²⁷⁵ Ibid, at 28.

²⁷⁶ Ex. A-26 (Symmonds Rate Design Rebuttal) at 13:12-18.

²⁷⁷ Ex. A-24 (Symmonds Direct) at 56:15-19.

²⁷⁸ Ex. S-9 (Eaddy Rate Design Surrebuttal) at 10:9-14.

1 damage, losses or operational impacts associated with the meter size change or the size of
2 the meter being inadequate or insufficient for the needs of the home owner.

- 3 2. Reimbursement of utility costs associated with that change, including cost of new meter
4 and installation costs in accordance with AAC R14-2-405.B.5. See Service Line and Meter
5 Installation Charges Tariff.²⁷⁹

6 **2. Water Theft charge.**

7 Water is an inexpensive commodity. That is a problem from an enforcement perspective.
8 The theft of 10,000 gallons is usually not worth the law enforcement time to prosecute.²⁸⁰ While
9 water theft is a Class 6 Felony,²⁸¹ law enforcement resources are in short supply. With very little
10 support from the law enforcement community, there are few disincentives to prevent people from
11 stealing water. The costs of prosecuting water theft are disproportionate to the value of the water.
12 The intent of the Water Theft Charge is to align the "value" of the misconduct with the "value" of
13 the time and effort required to prosecute it.

14 This problem is typically restricted to theft from hydrants, although Global has seen
15 situations where homeowners have "jumped", or bypassed their meters to receive service.²⁸²
16 Both of these instances result in lost revenue for the utility, but more importantly require that the
17 remaining customers compensate for that activity. Further, there is a real possibility that these
18 activities can introduce contamination into the distribution system as the individuals stealing water
19 rarely, if ever, follow backflow prevention procedures or sanitizing activities prior to
20 connection.²⁸³

21 Global requests a Water Theft Tariff that allows the utility to charge a fee of \$500 for water
22 theft. In the case of a homeowner, this fee would be added to their account. In the case of water
23 trucks stealing from utility hydrants, this fee would be presented in the form of an invoice to the
24 responsible party.

25 Staff believes "that the water theft charge and the security tab cutting charge is already
26 addressed in our R-14-2-407. If there are remedies sought to be outside of Global's customers,

27 ²⁷⁹ Ex. A-24 (Symmonds Direct) at 56-57.

²⁸⁰ Ex. A-24 (Symmonds Direct) at 57, footnote 28.

²⁸¹ A.R.S. § 13-3724.D.

²⁸² Ex. A-24 (Symmonds Direct) at 57:20-23.

²⁸³ Ex. A-24 (Symmonds Direct) at 58:1-3.

1 Staff would not oppose the company pursuing those avenues.”²⁸⁴ That rule does not provide any
2 remedy. A.A.C. R14-2-407.B.4 states:

3 Each customer shall be responsible for payment for any equipment
4 damage resulting from unauthorized breaking of seals, interfering,
tampering or bypassing the utility meter.

5 In the absence of “equipment damage”, there is no application of this rule. There is no way
6 for the utility to recover its costs associated with managing these instances. As a result, under
7 Staff’s proposal, the overall customer base must bear the cost of dealing with a few individuals.

8 **3. Hydrant Meter Deposit Charge.**

9 Hydrant meters are large expensive pieces of equipment, and include certified back flow
10 prevention and Automated Meter Reading devices attached. While Global requires that the
11 hydrant meters be moved only by Global personnel, and that they be locked to the hydrant
12 supplying service, Global has experienced a loss of some of these assemblies. Global requests a
13 refundable deposit be imposed under a Hydrant Meter Tariff reflecting the replacement cost of
14 these assemblies. Staff concurs with this request.²⁸⁵

15 **4. Lock/Security Tab Cutting Charge.**

16 Staff and Global continue to disagree about the effectiveness of applying AAC R14-2-407
17 (Rule 407) to discourage and recover costs associated with customers cutting locks and security
18 tabs. Global’s proposed Lock/Security Tab Cutting Charge is designed to defray the costs
19 associated with dealing with these events. Staff believes “that the water theft charge and the
20 security tab cutting charge is already addressed in our R-14-2-407.”²⁸⁶

21 This rule specifically refers to the recovery of equipment damage only, and is silent on
22 what are the real costs associated with administering these events. It is inappropriate for the
23 general customer base to be penalized with increased operating costs to deal with the illegal
24 activities of a select few.

27 ²⁸⁴ Tr. at 710:12-16.

²⁸⁵ Ex. S-9 (Eaddy Rate Design Surrebuttal) at 11:20-22.

²⁸⁶ Tr. at 710:12-14.

1 Staff also points to AAC R14-2-410.B (Rule 410)²⁸⁷ as a means of enforcing and
2 discouraging the act of cutting a lock or security tab. Rule 410 allows for the disconnection of a
3 customer without notice if:

- 4 • The utility has evidence of meter tampering or fraud; or
- 5 • There is unauthorized resale or use of utility services.

6 In the case of a customer cutting a lock or security tab the customer has *already* been
7 disconnected. Therefore, Rule 410 does not apply and cannot provide any disincentive to
8 discourage this activity. Rule 407 allows recovery of equipment damage costs only.

9 The Commission should close the gap between the actual costs associated with dealing
10 with these issues and recovery it currently allows by approving Global's proposed Lock/Security
11 Tab Cutting Charge.

12 **5. Source Control tariff and charges.**

13 Palo Verde's Source Control Program is designed to achieve a number of objectives:²⁸⁸

- 14 • To protect the collection systems from blockages and damage.
- 15 • To protect the treatment system from process upsets.
- 16 • To protect the quality of recycled water.
- 17 • To protect the quality of biosolids (sludge).
- 18 • To protect human health and the environment from damage.

19 The Program requires adherence to wastewater quality standards, or discharge limitations,
20 and provides specific guidance and operation practices for specific industries known to have
21 wastewater constituent levels that can cause problems.

22 If a customer violates source control standards, Global technicians are required to re-
23 inspect the facility routinely, significantly increasing the operational costs associated with this
24 program.²⁸⁹ To defray those costs, Global requests a \$250 fee for commercial customers found to
25 be violating source control requirements. This will allow for recovery of these increased costs and

26
27 ²⁸⁷ Ex. A-26 (Symmonds Rate Design Rebuttal) at 19:17-21, citing Staff's Response to Global 3:10.a.

²⁸⁸ Ex. A-24 (Symmonds Direct) at 63:6-12.

²⁸⁹ Ex. A-24 (Symmonds Direct) at 65:6-11.

1 will discourage the practice of not maintaining grease traps. Staff concurs with the adoption of a
2 \$250 Source Control Tariff fee.²⁹⁰

3 **6. Unauthorized discharge fee.**

4 One of the most difficult aspects of capacity management and maintenance is ensuring that
5 the sewers are not used illegally by septic tank haulers, or grease trap haulers. These industries
6 charge a fee for removal services and then, themselves pay a fee to facilities (e.g. landfills) for
7 environmentally sound disposal. Rather than paying these fees, some haulers choose to simply
8 dump their loads into a sewer system.²⁹¹ Some of the materials that the haulers carry have the
9 potential to seriously disrupt Global's treatment processes – in some cases for many days or even
10 weeks.²⁹² Global requests an Unauthorized Sewer Discharges Tariff with a \$5,000 charge for
11 violations plus all costs of collection and remediation. Staff concurs with this recommendation.²⁹³

12 **7. Deposit Interest.**

13 During the hearing, Staff stated that deposit interest is a recoverable expense, and can be
14 included in rates.²⁹⁴ Global accepts this recommendation and has included an allowance for
15 Deposit Interest in its final schedules.²⁹⁵ Accordingly, Global withdraws the requested change to
16 the deposit interest rate.

17 **8. Other miscellaneous fees.**

18 Staff and Global²⁹⁶ are in agreement on the changes to the following miscellaneous
19 fees:

- 20 1. Establishment Fees
- 21 2. After Hours Fees
- 22 3. Reconnect Fees
- 23 4. NSF Fees

24 ²⁹⁰ See Joint Issues Matrix.

25 ²⁹¹ Ex. A-24 (Symmonds Direct) at 65:15-26.

26 ²⁹² Ex. A-24 (Symmonds Direct) at 65:15-26.

27 ²⁹³ Ex. S-9 (Eaddy Rate Design Surrebuttal) at 12:1-2.

²⁹⁴ Tr. at 710:20-23.

²⁹⁵ See Global Final Schedules, Schedule C-1.

²⁹⁶ Ex. A-28 (Symmonds Rate Design Rejoinder) at 6:2-11.

The Miscellaneous Service Charges are detailed below:

Item	Current Fee	Staff and Global Amended Fee
Establishment	\$25 - \$35	\$35
Establishment (After Hours)	\$40 - \$50	\$50
Reestablishment (Within 12 Months)	*	No change
Reconnection (Delinquent)	\$30 - \$35	\$35
Meter Move at Customer Request	**	** As per AAC R14-2-405.B.5
After Hours Service Charge, Per Hour	\$0 - \$50	\$50
Deposit	***	***
Meter Re-Read(If Correct)	\$15 - \$25	\$30
Meter Test Fee (If correct)	\$0 - \$35	\$30
NSF Check	\$10 - \$15	\$30
Late Payment Charge (Per Month)	\$3.00 - 1.50% - Greater of 1.5% or \$5.00	1.5%
Deferred Payment (Per Month)	1.50% - Greater of 1.5% or \$3.50	1.5%

* Number of Months off System times the monthly minimum per A.A.C. R14-2-403(D).

** Cost to include parts, labor, overhead and all applicable taxes.

*** Per A.A.C. R14-2-403(B).

VII. DSM.

Global's DSM program is designed to augment the Rebate Threshold Rate structure, and allow for large consumers to achieve meaningful conservation with the assistance of the utility. The Global Utilities will allocate 15% of the revenue generated from the sale of recycled water to the DSM Program.²⁹⁷ In areas where a Global Utility does not control recycled water, a similar per-connection revenue amount will be allocated from revenues generated from the highest tier.²⁹⁸

²⁹⁷ Ex. A-25 (Symmonds Rebuttal) at 17:27 to 18:7.

²⁹⁸ Ex. A-25 (Symmonds Rebuttal) at 17:27 to 18:7.

1 Global directly funds this DSM program – there is no customer surcharge associated with
2 this program.²⁹⁹ This program is directed at large consumers, including HOA customers with large
3 usage, who can benefit from sophisticated irrigation management and appropriate turf
4 replacement.³⁰⁰ In addition, residential customers can benefit from turf replacement, rainwater
5 catchment, toilet replacement and other program elements.³⁰¹

6 Staff supports this DSM program and recommends that the program be submitted for
7 approval within 60 days of the final decision in this case.³⁰² Global concurs and believes strongly
8 that the Commission should formally approve the program.

9 **VIII. Pass through and adjustor mechanisms.**

10 **A. Low Income Tariff.**

11 The Rebate Threshold Rate structure provides a mechanism for all consumers to manage
12 their water costs by managing their consumption – both through maintaining consumption below
13 the rebate threshold, and by controlling consumption to remain in a lower tier of the six-tier
14 system. Global's DSM program provides financial assistance to allow high consumption users to
15 reduce their consumption. Global's proposed Low Income Tariff complements the innovative
16 RTR rate design and the DSM program by providing direct assistance to qualified families.

17 The details of the program are described in Mr. Symmonds Rebuttal Testimony.³⁰³
18 The program is modeled on similar programs in place at APS and TEP and will be administered by
19 the same organization: the Arizona Community Action Association (AzCAA). The program is
20 proposed to be funded through two revenue streams: 50% by Global parent, and 50% by the
21 application of a surcharge on existing ratepayers.³⁰⁴ Assuming that the ratepayers funded \$50,000,
22 and Global Parent provided matching funds to increase the available relief, and to cover
23 administrative overhead costs, there would be \$90,000 per year for possible allocation. The
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25 ²⁹⁹ Ex. A-25 (Symmonds Rebuttal) at 18:11; Tr. at 45:10-12.

26 ³⁰⁰ Ex. A-25 (Symmonds Rebuttal) at 20-21.

27 ³⁰¹ Ex. A-25 (Symmonds Rebuttal) at 20-21.

³⁰² Ex. S-11 (Jaress Surrebuttal) at 18:2-12.

³⁰³ Ex. A-25 (Symmonds Rebuttal) at 12-20.

³⁰⁴ Tr. at 45:2-3.

1 program would therefore be capped at \$90,000. Under Global's proposed limit of \$250/year, the
2 program could assist 360 families per year, or about 1% of the Global Utilities' connections.

3 Staff supports the Low Income Tariff and recommends that the program be submitted for
4 approval within 60 days of the final decision in this case.³⁰⁵ Global concurs.

5 **B. Distributed Renewable Energy Adjustment Mechanism.**

6 Global's proposed Distributed Renewable Energy Adjustment Mechanism ("DREAM") is
7 an innovative proposal that will provide benefits to ratepayers, the environment and the Global
8 Utilities.³⁰⁶ Every wastewater reclamation facility in Arizona is required to have acres of setbacks
9 (for odor control and safety purposes). These acres are unique – wholly unused open space with
10 no public access, no requirement for right-of-way payments, and located right next to electric
11 demand. These unused acres are ideal for distributed renewable energy. The DREAM tariff is a
12 first step towards putting those unused acres to use for the benefit of utility customers, and the
13 environment.

14 The "energy-water nexus" has received considerable attention in the last year. In short,
15 water and electricity are closely linked because water utilities use lots of electricity, and electric
16 utilities use lots of water. This concept is very important in Arizona, because water and
17 wastewater utilities use a significant percentage of the power used in Arizona.³⁰⁷ Installing
18 renewable energy systems at water and wastewater utility facilities is a new opportunity to reduce
19 the energy-water nexus. The DREAM tariff is a first stop towards seizing that opportunity.

20 The DREAM will have a minimal impact on customer bills, while helping the Global
21 Utilities move away from reliance on electric providers. Renewable energy will reduce Arizona's
22 need for increased electric utility generation and transmission infrastructure in Arizona. Demand
23 side reductions (such as distributed renewable energy) have environmental and economic benefits
24 not just for Global's customers, but for the customers of the Global Utilities' electricity providers
25 (primarily APS and Electrical District # 3).

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27 ³⁰⁵ Ex. S-11 (Jaress Surrebuttal) at 18:14-16.

³⁰⁶ Ex. A-21 (Moe Direct) at 9-16.

³⁰⁷ Tr. (Hill) at 263:18-20.

1 The DREAM tariff will reset annually - ensuring that purchased power costs are reduced to
2 reflect lower power purchases from electric utilities due to renewable energy. Customers will not
3 have to wait until the next rate case to see the financial benefits of moving toward renewable
4 energy. This provides a financial benefit to customers, and helps the Commission build public
5 support for increased renewable energy investment. Every year, the Global Utilities' customers
6 will receive a notice that informs them of how Global's renewable energy investment has reduced
7 their power costs.

8 The DREAM tariff is not a new approach to ratemaking. As Mr. Moe explained, the
9 DREAM tariff will "be similar to that of the Arsenic Cost Recovery Mechanism", with the utilities
10 making similar filings and with a similar surcharge consisting of a monthly minimum and
11 commodity charge component.³⁰⁸

12 Staff opposes the DREAM for the three reasons. First, Staff says that the Global Utilities
13 don't have "experience purchasing or operating solar facilities."³⁰⁹ True, but neither do most
14 homeowners, yet the Commission has strongly encouraged residential solar installation. Staff
15 acknowledges that its "fears" apply equally to "schools, residential and commercial customers,
16 which are actively working to install renewable technologies."³¹⁰ Moreover, the Commission
17 approved a loan to fund Global's first solar project, based on a Staff recommendation that the
18 "capital projects are appropriate."³¹¹ In addition, the Commission has often been a national leader
19 regarding renewable energy – for example, the Commission approved one of the first solar
20 portfolio standards in the United States. As Staff points out, there are risks – but leadership always
21 requires risks. Ms. Jaress testified that she is a "pessimist" about renewable technologies,³¹² but
22 this is the time for optimism and action, not fear and paralysis.

23 Second, Staff argues that using an adjustor mechanism transfers the risks of operating and
24 capital cost recovery to ratepayers.³¹³ But ratepayers will share in the benefits, as well as the risks.

25 ³⁰⁸ Ex. A-21 (Moe Direct) at 10-11.

26 ³⁰⁹ Ex. S-10 (Jaress Direct) at 40:10.

27 ³¹⁰ Tr. (Jaress) at 880:6-10.

³¹¹ Decision No. 71237 (Aug. 6, 2009) at 5:24.

³¹² Tr. at 879:20 to 880:2.

³¹³ Ex. S-10 (Jaress Direct) at 40:17-20.

1 Moreover, the Commission will remain firmly in control, because the DREAM tariff allows the
2 Commission to annually evaluate the usage, costs, and performance of renewable energy. Global
3 believes this is similar to what the Commission has done with electric utility power and fuel costs,
4 and what it has done with APS' renewable energy efforts.

5 Third, Staff argues that the ratepayers will not see a financial savings until many years after
6 the projects begin operation.³¹⁴ But Ms. Jaress concedes that "any increase in the price of
7 electricity" will reduce the payback period.³¹⁵ And electricity prices have been moving in one
8 direction – up. Moreover, many looming issues promise to accelerate those increases – such as the
9 EPA's proposed NOx rules, coal ash storage and disposal issues, natural gas volatility, and carbon
10 regulation. The DREAM tariff will help shield ratepayers from those future costs.

11 C. CAGR D pass-through.

12 CAGR D assesses fees directly on utilities that possess a Designation of Assured Water
13 Supply (DAWS).³¹⁶ The Global Utilities propose that CAGR D fees be recovered as a pass-
14 through expense, similar to sales tax expense, as it is a tax levied on actual consumption of
15 water.³¹⁷ The CAGR D rate would likewise be applied to the individual customer's
16 consumption.³¹⁸

17 Staff and RUCO oppose the proposed CAGR D Pass-Through. Both parties argue that none
18 of the utilities are currently paying CAGR D fees, and that the costs are not known and measurable.
19 However, Greater Tonopah will be paying the CAGR D fees in the near future.³¹⁹ Moreover, the
20 fees are entirely caused by the end-user because the CAGR D rates are based on consumption.³²⁰
21 Further, given the structure of the CAGR D fees, the amount of assessment is known and
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23

24 ³¹⁴ Ex. S-10 (Jaress Direct) at 41:1-2.

25 ³¹⁵ Ex. A-45, at Staff Response to Global 2.29.g.

26 ³¹⁶ See Ex. A-21 (Moe Direct) at 16-18. If an area is covered by Certificates of Assured Water
Supply(CAWS), which are issued to developers instead of utilities, the CAGR D fees are assessed
directly to land owners through a real estate parcel assessment in the property tax bill. Id. at 18.

27 ³¹⁷ See Ex. A-21 (Moe Direct) at 18.

³¹⁸ See Ex. A-21 (Moe Direct) at 18.

³¹⁹ Ex. A-21 (Moe Direct) at 19:8-10; Tr. (Moe) at 435:1-8; Tr. (Hill) at 112:1-8.

³²⁰ Ex. A-22 (Moe Rebuttal) at 10.

1 measurable based on a particular users' consumption.³²¹ In addition, the CAGR pass through
2 will assist in converting to a Designation of Assured Water Supply (DAWS). ADWR strongly
3 supports DAWS over CAWS where possible.³²² In the West Valley, a DAWS is critical for
4 coordinating numerous interested parties and ensuring long term availability of groundwater.³²³

5 In the alternative, should the Commission find that a pass-through is not appropriate at this
6 time, Global requests an adjustor mechanism similar to that recommended by Staff in the Johnson
7 Utilities case.³²⁴ RUCO appears to be amenable to this alternative.³²⁵

8 **D. Property Tax Adjustor.**

9 Global believes that Property Taxes are, and will become, increasingly volatile in the near
10 future. During the case, Global amended its request for pass-through treatment to an adjustor.³²⁶
11 An adjustor is appropriate because property taxes are a large and volatile expense that is not within
12 the control of the Global Utilities.

13 For example, over Santa Cruz's three-year history on Schedule E-2, Property Tax has
14 increased from 2.2% of operating expenses in 2006 to 5.8% in 2008, demonstrating a significant
15 level of volatility. Over that period, Santa Cruz's property taxes increased by 298%, while
16 operating revenues increased by only 19.8%.³²⁷ Staff readily admits that property tax expenses are
17 out of the Company's control,³²⁸ and that the expenses have increased 300% in from 2006 to
18 2008.³²⁹

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23 ³²¹ Ex. A-22 (Moe Rebuttal) at 10.

24 ³²² See letters dated Nov. 16, 2009 by Karen Smith, Deputy Director ADWR and Nov. 19, 2009
25 by Benjamin H. Grumbles, Director, ADEQ filed in Docket No. SW-20422A-06-0566.

26 ³²³ Ibid.

27 ³²⁴ See Ex. S-10 (Jaress Direct) at 38.

³²⁵ See Joint Issue Matrix.

³²⁶ Ex. A-22 (Moe Rebuttal) at 8:17-19.

³²⁷ See Santa Cruz Final Schedule E-2.

³²⁸ Tr. (Brown) at 620:14-16.

³²⁹ Tr. (Brown) at 631:10-17.

Global Water - Santa Cruz Water Company	2006	2008	Percentage Increase from 2006 to 2008
Total Operating Revenue	\$ 7,886,243	\$ 9,453,440	19.9%
Property Taxes	\$ 106,204	\$ 423,523	298.8%
Property Tax Percentage of Revenue	1.35%	4.48%	

E. Franchise / MOU fee.

Global is at the forefront of integrated water resource management. In order to execute Global's Total Water Management plan, it is necessary to have strong relationships with public agencies that can impact the conservation of water in our service areas. The Public-Private Partnerships (P3) serve to formalize the close relationship Global has developed with the Cities of Maricopa and Casa Grande. The P3s provide a number of benefits to both parties:³³⁰

- Close cooperation on water conservation measures;
- Mutual exchange of development information, such as building permits, GIS data and water hook-ups;
- Coordination of Regional Planning;
- Coordination of the City's obligation under Arizona's Growing Smarter legislation;
- Emergency services co-ordination via SCADA (fire flow responses etc)
- Expedited processing of certain permits;
- A commitment to meet and discuss issues often; and
- Access to public streets rights of way.

One of the main reasons the cities signed the P3s was their deep concern about future water resources. They fully understood the benefits of integrated utilities that can provide state-of-the-art water conservation, such as the Global Utilities TWM program.³³¹ Indeed, the P3s provide for close cooperation on water conservation measures.³³² As partners in conservation, the P3 agreements allow Global and cities to manage future growth in accordance with their obligations under Arizona's Growing Smarter and Growing Smarter Plus laws.

As well as outlining the cooperation regarding regional planning, the P3s also assist the municipalities in providing these services through fees. There are two components to the fees due

³³⁰ Ex. A-7 (Hill Direct) at 24-25.

³³¹ Ex. A-7 (Hill Direct) at 25:25 to 26:2.

³³² Ex. A-7 (Hill Direct) at 25:25 to 26:2.

1 under the P3s. The first fee is to be paid by Global Parent based on a set amount for each new
2 meter hook-up. Global is not proposing any rate recovery of that fee.

3 The second fee is a franchise-like fee based on water, wastewater and recycled water
4 revenues earned within the cities' municipal planning areas. This franchise-like fee is specifically
5 linked to the "operating/license agreement" that allows the Global Utilities to use the public rights
6 of way. Because this franchise fee is based on gross revenues, it is like sales taxes, and it is
7 therefore appropriate for a pass-through mechanism.

8 Staff argues that a franchise election is the key factor. But this ignores the fact that elected
9 representatives made the decision – which is how virtually all government decisions work in
10 America. Staff's position is puzzling because the rule they rely on never refers an election
11 requirement. As Staff's witness testified:

12 Q ...the relevant rule and tariff language does not limit the pass-through to fees
13 approved in an election; is that correct?

14 A. That's correct. It doesn't -- actually the language in the rule and in the tariff don't
15 even say franchise. So I don't use the word franchise, but that is the rule that the
16 Commission uses and the company uses to pass-through franchise fees ³³³.

17 Q. Ms. Jaress, would you agree with me that those rate tariffs indicated in A-52 did not
18 limit the pass-through to franchise agreements approved in elections?

19 A. They do not have those words in them. ³³⁴

20 As Mr. Moe testified, A.A.C. R14-2-409.D.5 allows for the recovery of privilege, sales or use
21 taxes – those taxes based on gross revenue. ³³⁵ The rule states:

22 In addition to the collection of regular rates, each utility may collect from
23 its customers a proportionate share of any privilege, sales or use tax.

24 Staff also argues that a separate accounting should be performed on the expenses related to
25 the MOU activities. But Staff's witness testified that a separate accounting is not required for any
26 other fees – most notably franchise fees:

27 ³³³ Tr. at 876:17-25.

³³⁴ Tr. at 877:13-17.

³³⁵ Tr. at 464:15-25 and 465:1-14.

1 Q. Are you aware of any other utilities which separately account for expenses
2 related to franchise agreements?

3 A. I have never asked, so I don't know.³³⁶

4 RUCO also opposed the Franchise Fee pass-through, but recommends rate recovery of the
5 P3 fees and has made an adjustment including the costs based on its proposed revenues.³³⁷ The
6 Global Utilities continue to support a P3 fee pass-through. Global entered into these contracts, in
7 good faith, to obtain the numerous benefits to its customers provided by these contracts,
8 recognizing that the municipalities would be entitled franchise fees upon their demand for a
9 franchise agreement. The Maricopa and Casa Grande City Councils voted to approve these
10 agreements, and the city councils have chosen not to pursue franchise elections at this time. The
11 Commission should recognize that these actions were made by elected representatives of the
12 people of those cities, and respect their choices. These fees are based entirely on sales so pass-
13 through treatment is appropriate. However, should the Commission deny pass-through treatment,
14 then recognizing these fees in revenue requirement as recommended by RUCO would be
15 appropriate.

16 **IX. Rate Base / Balance Sheet issues.**

17 **A. ICFA.**

18 Global removed \$32 million in unused "Southwest" plant from rate base. No party
19 disputes that the remaining plant is "used and useful." As Mr. Hill testified, "[w]hat customers are
20 being asked for in this case is to pay for the plant that they actually use."³³⁸ The only rate base
21 issues in dispute concern ICFAs. Staff and RUCO propose imputing all ICFA fees as CIAC.³³⁹
22 For the reasons already stated, Global disagrees. Staff and RUCO also propose a related
23 adjustment for Amortization of CIAC.³⁴⁰ Because Global disagrees with the imputation of CIAC,
24 it believes that the related adjustment to Amortization of CIAC is not needed.

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26 ³³⁶ Tr. at 878:16-19.

27 ³³⁷ Ex. RUCO-4 (Rigsby Direct) at 18:1-5.

³³⁸ Tr. at 35:22-23.

³³⁹ Ex. S-7 (Brown Surrebuttal) at 4-6; Ex. RUCO-2 (Moore Surrebuttal) at 3-4.

³⁴⁰ Ex. S-7 (Brown Surrebuttal) at 6.

1 **B. Long-Term Storage Credits.**

2 West Maricopa Combine (WMC), an unregulated affiliate of the Global Utilities, owns and
3 operates the Hassayampa Recharge Facility. The following facts are undisputed³⁴¹:

- 4 • The Global Utilities do not own the recharge facility (and never did);
- 5 • The Global Utilities did not pay the construction costs of the recharge facility;
- 6 • The Global Utilities did not pay to acquire the water that was recharged; and
- 7 • The Global Utilities do not pay the operating costs of the recharge facility.

8 Despite these undisputed facts, Staff believes that the Global Utilities “should recognize (i.e.,
9 record) a regulatory liability equal to the net sale proceeds” of the recharge credits generated by
10 the recharge facility.³⁴² Staff also believes that ratepayers should “benefit from the regulatory
11 liability in a future rate proceeding.”³⁴³ Thus, although Staff’s recommendation would not have an
12 immediate impact on rate base, it would have an immediate impact on the Global Utilities’ balance
13 sheets (due to recording the regulatory liability), as well as a future impact on rate base.

14 Even if Staff’s recommendation had some basis, Staff has not explained its
15 recommendation in sufficient detail. Staff has not explained how to calculate “net sales proceeds”,
16 including whether capital costs would be considered.³⁴⁴ Instead, Staff states it may provide this
17 information at some unknown future time.³⁴⁵ Moreover, Staff has not explained which Global
18 Utilities should record the liabilities or how the net sale proceeds should be allocated between
19 those utilities. Under Staff’s recommendation, Global would be required to make these
20 calculations and record the regulatory liability upon entry of the order, not at the unknown future
21 time when Staff chooses to explain its recommendation.

22 Recording the liability would cause an immediate impact to the balance sheets of Global
23 and the Global Utilities. Yet Staff was not able to explain whether they considered balanced sheet
24 impacts or what those impacts would be.³⁴⁶ Given Staff’s professed concerns for Global’s

25 ³⁴¹ Ex. A-25 (Symmonds Rebuttal) at 10:25-11:4; Tr. (Jaress) at 873-874.

26 ³⁴² Ex. S-10 (Jaress Direct) at 37:15-17.

27 ³⁴³ Ex. S-10 (Jaress Direct) at 37:17.

³⁴⁴ Ex. S-45 at Staff Response to Global 2.42(a) and (b).

³⁴⁵ Ex. S-45 at Staff Response to Global 2.42(a) and (b).

³⁴⁶ Ex. S-45 at Staff Response to Global 2.42(c).

1 financial viability, that omission is odd. Recording a regulatory liability would immediately
2 impact Global's equity ratio and other key financial metrics, but would not provide ratepayers any
3 benefit in this case. Staff has simply not provided enough information to adequately evaluate its
4 recommendation.

5 In addition, Staff's recommendation fails to consider that WMC sold the recharge facility
6 at a loss of \$5.8 million.³⁴⁷ Global is concerned that Staff would seek to have ratepayers share in
7 the profits but not the losses. Staff's only response was to suggest that Global file this information
8 (which it has already provided).³⁴⁸

9 Staff also recommends that the Global Utilities be required to file an annual report
10 regarding the sale of recharge credits.³⁴⁹ The Commission should not require the Global Utilities
11 to file a report about something they don't sell, that's produced by facilities they don't own, using
12 operating expenses they don't pay. Moreover, even if the reporting requirement ever made sense,
13 it is now unnecessary because WMC sold the recharge facility.³⁵⁰

14 **C. Uncontested Adjustments.**

15 RUCO proposed two rate base adjustments. RUCO Rate Base Adjustment No. 1 adjusts
16 gross-plant in service and accumulated depreciation.³⁵¹ RUCO made minor corrections to this
17 adjustment in surrebuttal.³⁵² Global agrees with the corrected RUCO Rate Base Adjustment No. 1.
18 RUCO Rate Base Adjustment No. 2 made an additional adjustment to accumulated depreciation.³⁵³
19 Global agrees with the adjustment.

20 **D. Final Rate Base.**

21 As shown in Global's final schedules, the Commission should adopt the following rate
22 bases:

23 Palo Verde: \$64,011,238

24
25 ³⁴⁷ Ex. A-27 (Symmonds Rejoinder) at 10.

26 ³⁴⁸ Tr. (Jaress) at 875:23-876:6.

27 ³⁴⁹ Ex. S-10 (Jaress Direct) at 10:17-20.

³⁵⁰ Ex. A-27 (Symmonds Rejoinder) at 9-10.

³⁵¹ Ex. RUCO-1 (Moore Direct) at 9-10.

³⁵² Ex. RUCO-2 (Moore Surrebuttal) at 3:21-23.

³⁵³ Ex. RUCO-1 (Moore Direct) at 10:10-19.

1	Santa Cruz:	\$45,902,454
2	Valencia – Town	\$4,443,607
3	Greater Tonopah	\$2,563,849
4	Willow Valley	\$2,207,149
5	Valencia – Greater Buckeye	\$895,377
6	West Valley (Consolidated)	\$7,902,833

7 **X. Income Statement.**

8 As became apparent through the course of the hearing, this rate case did not feature many
9 disputes over “typical” rate case issues concerning adjustments to test year revenues or expenses.
10 The cost allocation methods utilized by Global also were uncontested. The final Joint Issue Matrix
11 (attached as Attachment B) sets forth the agreed upon adjustments to the Income Statement.

12 **A. Contested Income Adjustments.**

13 **1. Bad Debt Expense.**

14 Global and RUCO agreed that the actual test year bad debt expense should be used for test
15 year income.³⁵⁴ However, Staff urges the Commission to adjust the bad debt expense to reflect
16 bad debt *write-offs* during the test year, which was somewhat lower than the bad debt expense
17 during the test year.³⁵⁵ Bad debt write offs are not defined the same as bad debt expense under the
18 NARUC Uniform System of Accounts (USOA).³⁵⁶ The NARUC USOA requires that the actual
19 bad debt expense be used.³⁵⁷ Although it did not happen in this case, bad debt write offs could be
20 manipulated in a manner to increase those write offs during a test year.³⁵⁸ As a result, the more
21 sound practice is to base the bad debt expense on actual test year bad debt expense, not test year
22 bad debt write offs. Therefore, there should be no actual adjustment for Bad Debt Expense (that is,
23 the adjustment is \$0).

24

25

26 ³⁵⁴ Ex. A-22 (Moe Rebuttal) at 7; Ex. RUCO-2 (Moore Surrebuttal) at 9.

27 ³⁵⁵ See Ex. S-6 (Brown Direct) at 23-24; Ex. A-22 (Moe Rebuttal) at 7.

³⁵⁶ Exs. A-41, 42 (NARUC Uniform System of Accounts excerpts); Tr. (Brown) at 633-34.

³⁵⁷ Exs. A-41, 42 (NARUC Uniform System of Accounts excerpts).

³⁵⁸ See Tr. (Brown) at 634.

1 **2. Property Tax.**

2 Global proposed an adjustment to Property Tax expense to reflect its proposed Property
3 Tax Adjustor.³⁵⁹ Both Staff and RUCO oppose the proposed Adjustor. The differences in the
4 Property Tax adjustment primarily reflect the differing positions on the Adjustor. As Global
5 noted, if the Adjustor is rejected, then the property taxes needed to be included as an expense.³⁶⁰
6 Staff proposed to do just that in its direct testimony.³⁶¹ Although Global was concerned that
7 RUCO used the incorrect property tax rate in its adjustment,³⁶² RUCO believes any difference is
8 only the result of its different revenue requirement.³⁶³ Thus, this adjustment rises or falls
9 depending on the resolution of the Property Tax Adjustor issue. Assuming that a Property Tax
10 Adjustor is approved, the adjustment to expense for each utility is as follows:

11 Santa Cruz	(423,523)
12 Palo Verde	(280,397)
13 Valencia	(118,368)
14 WUGB	(15,527)
15 WUGT	(7,143)
16 Willow Valley	(21,324) ³⁶⁴

17
18 **3. Wages & Expenses Reclassification.**

19 Staff proposed a reclassification of Salaries & Wages and Pension & Benefits to a different
20 USOA account – Contract Services – Management Fees.³⁶⁵ Global and RUCO do not agree with
21 this adjustment. Staff's reclassification would lump these employee expenses with other outside
22 contract services that are typically found in that account.³⁶⁶ Global's treatment of these expenses

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³⁵⁹ Ex. A-21 (Moe Direct) at 8-9.

25 ³⁶⁰ Ex. A-21 (Moe Direct) at 9.

26 ³⁶¹ Ex. S-6 (Brown Direct) at 27.

27 ³⁶² Ex. A-22 (Moe Rebuttal) at 9.

³⁶³ Ex. RUCO-2 (Moore Surrebuttal) at 6.

³⁶⁴ Ex. A-21 (Moe Direct) at 8.

³⁶⁵ Ex. S-6 (Brown Direct) at 17.

³⁶⁶ See Ex. A-22 (Moe Rebuttal) at 2-3.

1 provides more transparency.³⁶⁷ Moreover, Staff's adjustment does not affect the revenue
2 requirement – it simply moves expenses from one account to another and combines them with
3 other contractual service expense, thus making it difficult to clearly see the salary and wage
4 expenses in a review of the Global accounts. Global continues to oppose this Staff adjustment.

5 **4. Depreciation Expense.**

6 Staff has proposed an adjustment to depreciation expense. However, this adjustment is
7 related to the treatment of ICFA as CIAC.³⁶⁸ Therefore, this adjustment will be impacted by the
8 resolution of the ICFA issues in this case.

9 **5. Franchise Fees.**

10 RUCO has proposed an adjustment to add in certain Franchise Fees as an expense.³⁶⁹
11 RUCO has proposed this adjustment because it opposes Global's proposal to pass through the
12 Franchise Fees through a surcharge.³⁷⁰ As discussed above, Global believes the pass-through is
13 appropriate. However, if the surcharge is rejected, then Global agrees with RUCO's adjustment.

14 **B. Uncontested Income Adjustments**

15 **1. Uncontested Global Adjustments**

16 The parties agreed to the following Global Adjustments to the Income Statement:

17 *a. Global Adjustment No. 1* – Elimination of Unbilled Revenues and Other Accounting
18 Entries. This adjustment removes the effect of the accounting requirement to accrue revenues
19 earned, but not yet billed. The adjustment to revenues for each utility is as follows:

20	Santa Cruz	\$102,160
21	Palo Verde	38,508
22	Valencia – Town Division	(9,187)
23	Valencia –Greater Buckeye Division	1,501
24	WUGT	2,404

25
26 ³⁶⁷ In the Joint Issues Matrix, RUCO also agreed that Global's method provided better tracking of
expenses.

27 ³⁶⁸ Ex. S-6 (Brown Direct) at 24.

³⁶⁹ Ex. RUCO-1 (Moore Direct) at 15-16.

³⁷⁰ Ex. RUCO-1 (Moore Direct) at 15-16.

1 Willow Valley (2,467)³⁷¹

2 **b. Global Adjustment No. 2** – Adjustment to Miscellaneous Revenues. This adjustment,
3 affects two utilities, Santa Cruz and Valencia. The Santa Cruz adjustment removes meter sales to
4 the 387 Domestic Water Improvement District, prior to its transfer to Santa Cruz’s CC&N. The
5 Valencia adjustment removes a refund received from APS related to 2006. Income statement
6 adjustment for each utility is as follows:

7	Santa Cruz	\$(145,739)
8	Palo Verde	N/A
9	Valencia – Town Division	(31,628)
10	Valencia – Greater Buckeye Division	N/A
11	WUGT	N/A
12	Willow Valley	N/A ³⁷²

13 **c. Global Adjustment No. 4** – Adjustment to Employee Salaries and Wages and Benefits.
14 This adjustment reduces employee salaries and wages and benefits. In this difficult economy, the
15 utilities have been proactive in trying to minimize costs where possible, and have made
16 reductions to their staff in an effort to cut costs. The adjustment to expense for each utility as
17 follows:

18	Santa Cruz	\$(141,989)
19	Palo Verde	(141,989)
20	Valencia – Town Division	(40,859)
21	Valencia – Greater Buckeye Division	(3,143)
22	WUGT	(3,143)
23	Willow Valley	(32,006) ³⁷³

24 **d. Global Adjustment No. 5** -- Purchased Power adjustment to reflect increased electrical
25 rates. This adjustment adjusts purchased power to reflect the most recent known and measurable
26 changes from each utility’s power providers. Santa Cruz and Palo Verde are served by Electric

27 ³⁷¹ Ex. A-21 (Moe Direct) at 2-3.

³⁷² Ex. A-21 (Moe Direct) at 3.

³⁷³ Ex. A-21 (Moe Direct) at 4-5.

District No. 3 of Pinal County, and have received notice of 12.5% increase to its commercial and industrial rates. Valencia, WUGB and WUGT are served by APS, and the estimated increase in purchased power is 3.4%. Willow Valley has not received notice of any upcoming rate increase to date. The adjustment to expense for each utility is as follows:

Santa Cruz	\$63,445
Palo Verde	66,886
Valencia – Town Division	10,127
Valencia – Greater Buckeye Division	888
WUGT	581
Willow Valley	N/A ³⁷⁴

e. Global Adjustment No. 6 -- Remove Advertising Expense. This adjustment removes advertising expense from the utilities. The adjustment to expense for each utility is as follows:

Santa Cruz	\$(1,825)
Palo Verde	(256)
Valencia – Town Division	(123)
Valencia – Greater Buckeye Division	(336)
WUGT	(17)
Willow Valley	(578) ³⁷⁵

f. Global Adjustment No. 7: Rate Case Expense. This adjustment adjusts expenses to allow for the recovery of costs for this rate case. The adjustment to expense for each utility for rate case expense is as follows:

Santa Cruz – 40%	\$53,333
Palo Verde – 40%	53,333
Valencia – Town Division – 14%	18,667
Valencia – Greater Buckeye Division – 1%	1,333
WUGT – 1%	1,333

³⁷⁴ Ex. A-21 (Moe Direct) at 5.

³⁷⁵ Ex. A-21 (Moe Direct) at 6.

1 Willow Valley – 4% 5,333³⁷⁶

2 **g. Global Adjustment No. 9** -- Revise Depreciation Expense to reflect end of year plant
3 balances and Staff's typical depreciation rates. This adjustment adjusts depreciation expense to
4 reflect an expense level reflective of each utility's utility plant in service as of December 31,
5 2008. In addition, each utility proposes to implement the water and wastewater depreciation
6 rates typically proposed by ACC Staff. This adjustment to depreciation expense for each utility
7 is as follows:

8	Santa Cruz	\$75,498
9	Palo Verde	258,362
10	Valencia	1,064,639
11	WUGB	18,239
12	WUGT	104,692
13	Willow Valley	59,013 ³⁷⁷

14
15 **h. Global Adjustment No. 10** -- Remove ACC & RUCO assessments. This adjustment
16 adjusts expenses to remove ACC and RUCO fees which were expensed prior to each utility's
17 implementation of the pass-through of these fees. This adjustment to expense for each utility is
18 as follows:

19	Santa Cruz	\$(53,078)
20	Palo Verde	(25,049)
21	Valencia	(12,644)
22	WUGB	N/A
23	WUGT	N/A
24	Willow Valley	(2,480) ³⁷⁸

25 With respect to **Global Adjustment No. 3** -- Annualize Revenue and Expense to Reflect
26 End-of-Test Year Customer Counts, Global accepted the revised calculation for this adjustment as

27 ³⁷⁶ Ex. A-21 (Moe Direct) at 6.

³⁷⁷ Ex. A-21 (Moe Direct) at 7.

³⁷⁸ Ex. A-21 (Moe Direct) at 8.

1 set forth in Staff's adjustment for Revenue and Expense Annualization.³⁷⁹ As a result, there are no
2 adjustments from this adjustment.

3 With respect to *Global Adjustment No. 12* -- Income Tax Expense, the different
4 adjustments proposed by the parties is due only to the different final revenue requirements
5 proposed by each party. The proper amount of this adjustment ultimately will be decided upon the
6 resolution of the other issues affecting revenue requirement.

7 **2. Uncontested Staff Adjustments**

8 The parties have agreed to the following Staff adjustments:³⁸⁰

- 9 a. Staff Adjustment – Revenue and Expense Annualization;
- 10 b. Staff Adjustment – Contractual Service, Management Fees;
- 11 c. Staff Adjustment – Purchased Power (as revised by Global);³⁸¹ and
- 12 d. Staff Adjustment – Contractual Services, Water Testing.

13 With respect to Staff Adjustment – Automatic Meter Readers, Staff did not propose any
14 adjustment.³⁸² Finally, Staff has withdrawn its proposed adjustment regarding “Materials and
15 Supplies, Acct. Nos. 620.08 and 720.08.”³⁸³

16 **3. Uncontested RUCO Adjustments**

17 RUCO's Adjustment No. 2 – CAGR D Fee resulted in no actual adjustment in this rate case
18 because no CAGR D fees are currently being paid.³⁸⁴ The appropriate method for recovering
19 CAGR D fees as previously discussed.

20
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22
23
24 ³⁷⁹ Ex. A-22 (Moe Rebuttal) at 2.

25 ³⁸⁰ See Joint Issue Matrix. In its testimony, Staff has several similar adjustments for the six
26 utilities. However, not every Staff adjustment applies to each of the six utilities. The Staff
27 schedules set forth the adjustment for each utility.

³⁸¹ Ex. S-7 (Brown Surrebuttal) at 9.

³⁸² See Ex. S-7 (Brown Direct) at 21. Staff indicated that it may propose an adjustment in its
Surrebuttal, but ended up not proposing an adjustment. See Joint Issue Matrix.

³⁸³ Ex. S-7 (Brown Surrebuttal) at 7.

³⁸⁴ Ex. RUCO-1 (Moore Direct) at 13-14.

1 **C. Cost Allocation.**

2 The cost allocation methodology utilized by Global in these rate cases was uncontested.
3 The cost allocation methodology was set forth in the Direct Testimony of Gregory A. Barber.³⁸⁵
4 This testimony was stipulated into the record.³⁸⁶ No party contested this testimony.

5 **XII. Increase in Revenue Requirement.**

6 Based on the above, the Commission should increase the Global Utilities' revenue
7 requirements as follows:

8	Palo Verde:	\$8,959,124
9	Santa Cruz:	\$3,586,360
10	Valencia – Town:	\$1,619,225
11	Greater Tonopah:	\$ 623,831
12	Willow Valley:	\$467,532
13	Valencia – Greater Buckeye:	\$108,896
14	West Valley Consolidated:	\$2,373,782

15 **XIII. Engineering issues.**

16 By the time of the hearing, there were no engineering or plant issues in dispute.

17 **A. Water Loss**

18 In its Direct Testimony, Staff raised some concerns regarding water loss in certain former
19 WMC water systems. Staff recommended that Valencia Water Company – Greater Buckeye
20 Division file a report detailing how the Sun Valley/Sweetwater and Sweetwater II systems will
21 reduce water loss to less than 10%.³⁸⁷ The Company agrees to provide the recommended report.
22 In its Rebuttal, Mr. Symmonds discussed appropriate metrics to calculate the water loss given the
23 nature of the systems.³⁸⁸ Staff acknowledged the limitations of certain metrics.³⁸⁹ As part of its
24 report on water loss, Global will include a discussion of results under different metrics.

25
26 ³⁸⁵ Ex. A-20 (Barber Direct) at 2 through 15.

27 ³⁸⁶ Tr. at 319.

³⁸⁷ Ex. S-4 (Liu Direct) at 5.

³⁸⁸ Ex. A-25 (Symmonds Rebuttal) at 23-31.

³⁸⁹ Ex. S-5 (Liu Surrebuttal) at 2.

1 **B. Sun Valley Storage**

2 In its Direct Testimony, Staff recommended that Global construct additional storage at its
3 Sun Valley system.³⁹⁰ In Rebuttal, Global identified a stand-by well that was connected to the
4 existing storage tanks.³⁹¹ Based on that information, Staff agreed that additional storage capacity
5 at the Sun Valley system was not necessary.³⁹²

6 **C. Rose View Storage.**

7 Staff recommends that Greater Tonopah install a storage tank with a minimum storage
8 capacity of 3,750 gallons for Greater Tonopah's Roseview system (PWS 07-082), and file ADEQ
9 Approval of Construction within 12 months of the date of a decision on this proceeding.³⁹³ Global
10 concurs.

11 **XIV. Conclusion.**

12 The ICFA agreements are essential to Global's ability to pursue TWM and to acquire small
13 water companies. ICFA fees not spent on plant should not be deducted from rate base. Moreover,
14 Staff's ICFA imputation is flawed by assuming that plant that was actually paid for by debt or
15 AIAC was funded by ICFA fees.

16 Global's RTR rate design, DSM program and Low Income Tariff provide a comprehensive
17 system that allows customers to reduce their bills while promoting conservation and preserving the
18 financial integrity of the utility. These programs should be approved. Global's DREAM tariff is
19 an important step towards expanding renewable energy use in Arizona's energy-intensive water
20 industry. The CAGR and P3 adjusters simply pass on expenses imposed by the government –
21 expenses that provide key benefits to Global and its customers. Global's other proposals should
22 also be adopted.

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³⁹⁰ Ex. S-4 (Liu Direct) at 4-5.

27 ³⁹¹ Ex. A-25 (Symmonds Rebuttal) at 22-23.

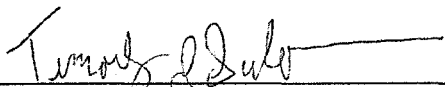
³⁹² Ex. S-5 (Liu Surrebuttal) at 1.

³⁹³ Ex. S-4 (Liu Direct) at 6:8-12.

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RESPECTFULLY SUBMITTED this 5th day of February 2010.

ROSHKA DEWULF & PATTEN, PLC

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1 **Original +13 copies of the foregoing**
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6 Phoenix, AZ 85007

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By 

Attachment A

Chart 3: Operating Costs Per Customer (2008 Annual Reports)

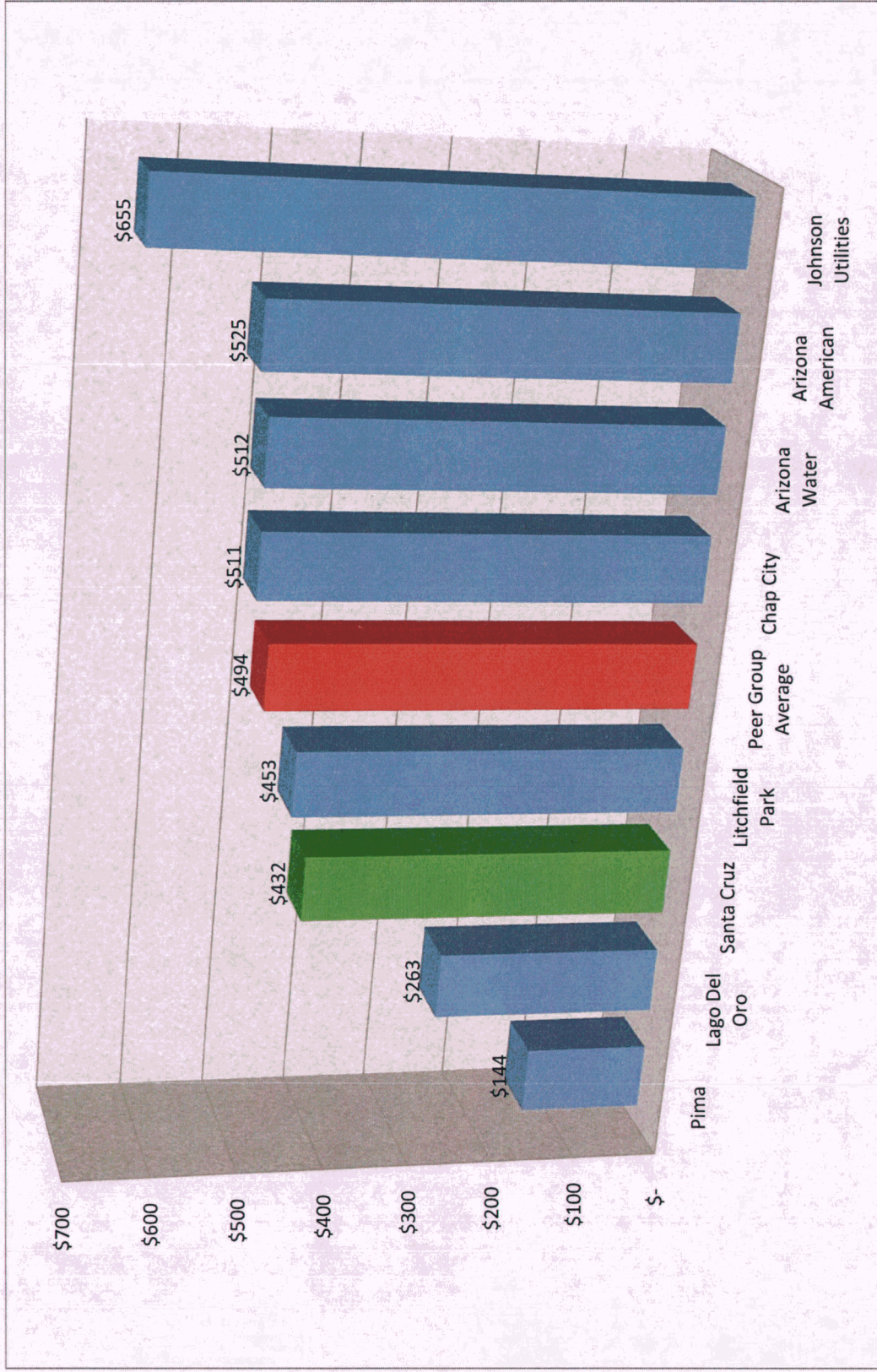
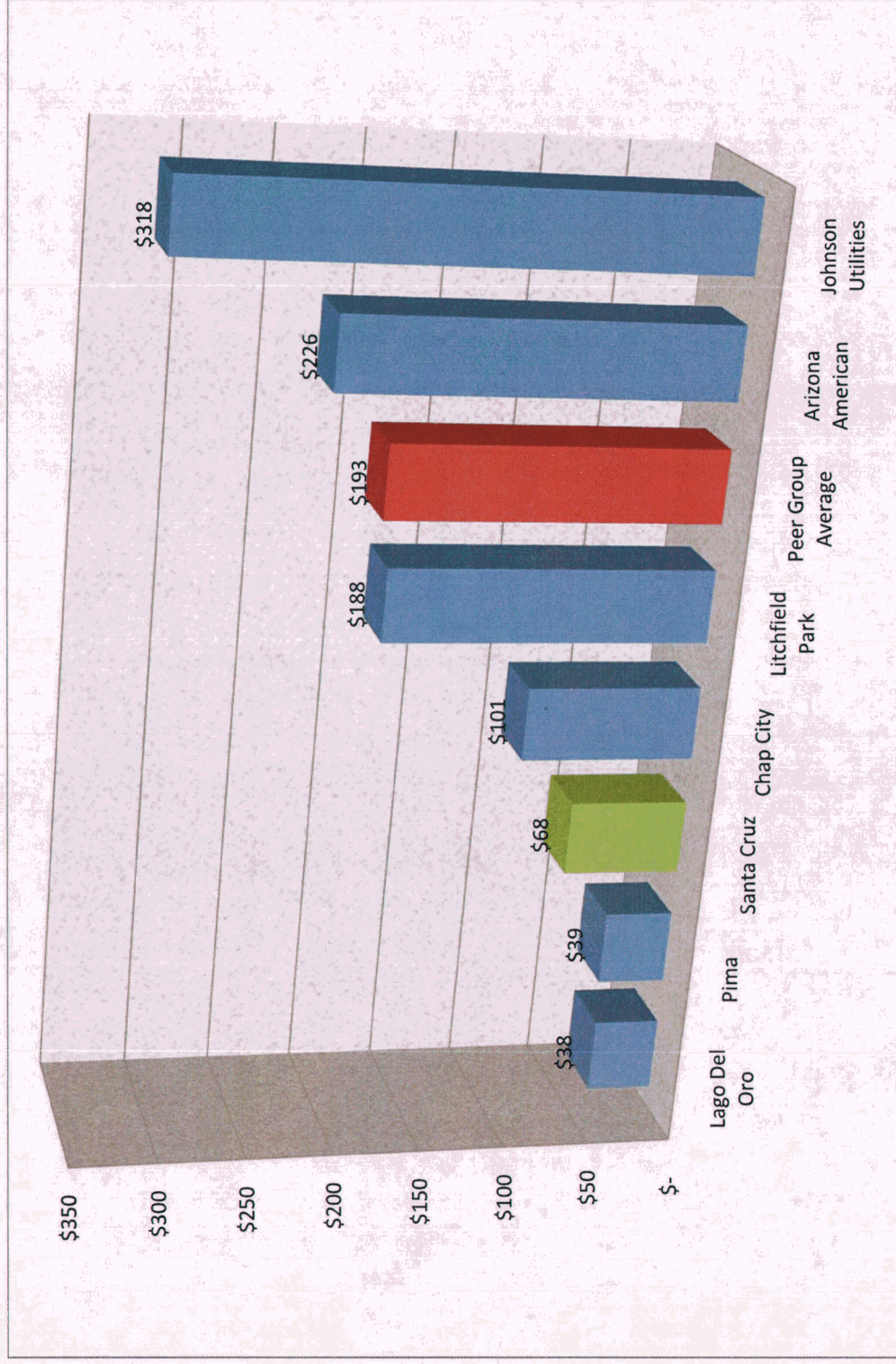


Chart 4: Labor Costs Per Customer (2008 Annual Report)¹



¹ Labor Costs are defined as the sum of operating expense accounts 601 Salaries and Wages, 604 Employee Pension and benefits, 630/634 Outside Services/Contract Services, 636 Contractual Services Other, and 659 Insurance Health/Life. Arizona Water was excluded from Charts 4 and 5 because the layout of its annual report makes extracting the relevant information difficult.

Chart 5: Repairs and Maintenance Expense Per Customer (2008 Annual Report)

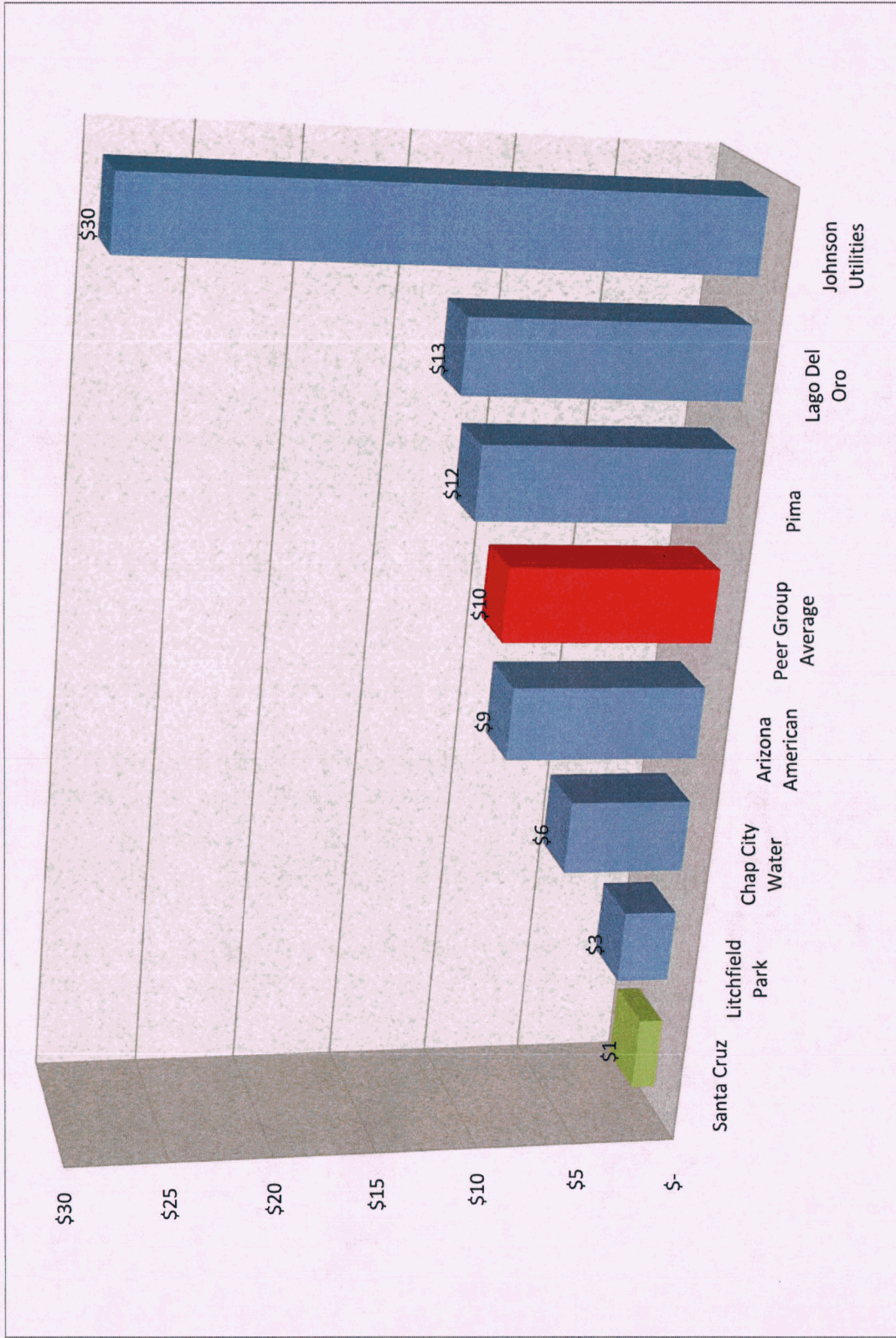


Chart 6 Wastewater Operating Costs Per Customer (2008)

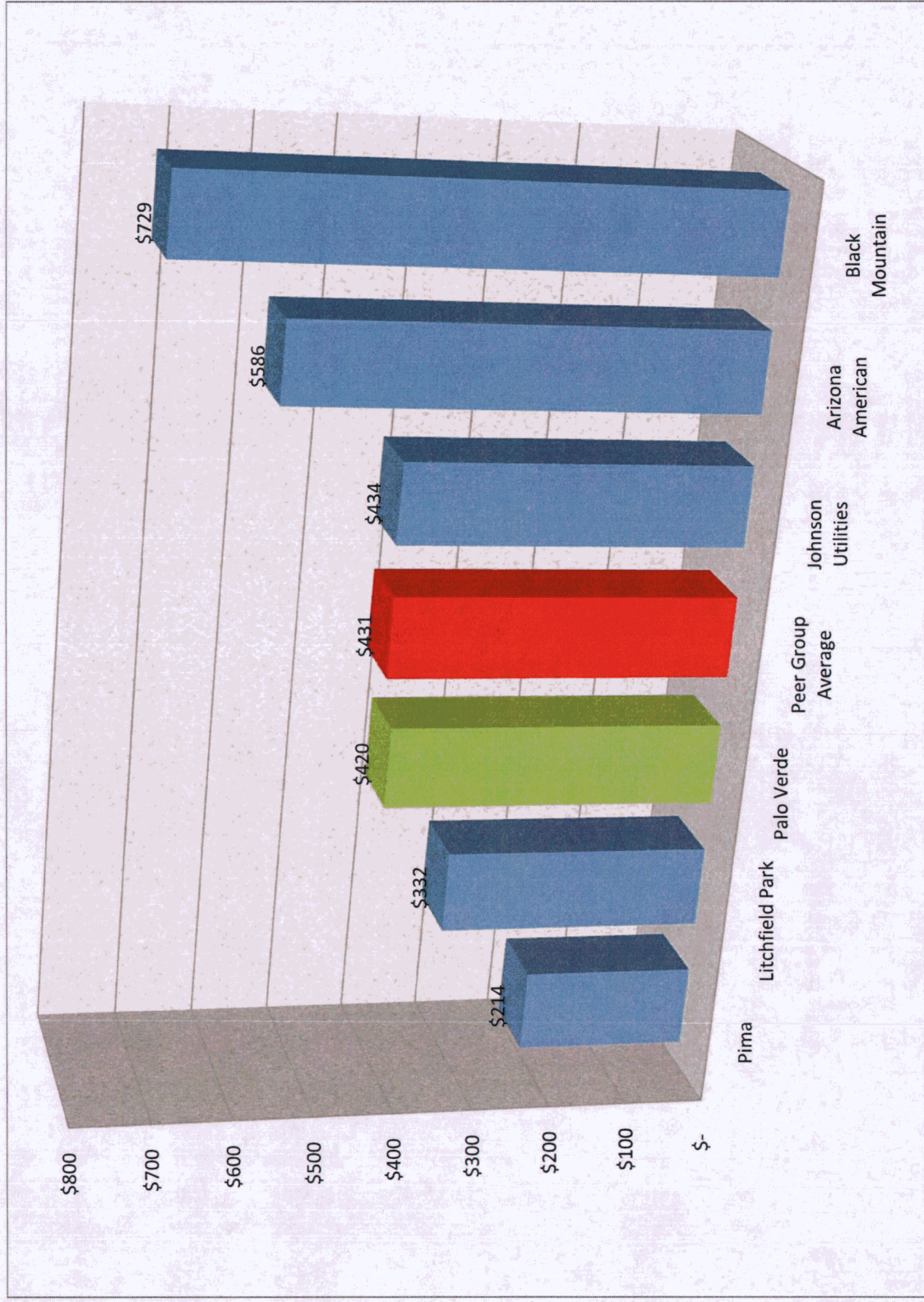
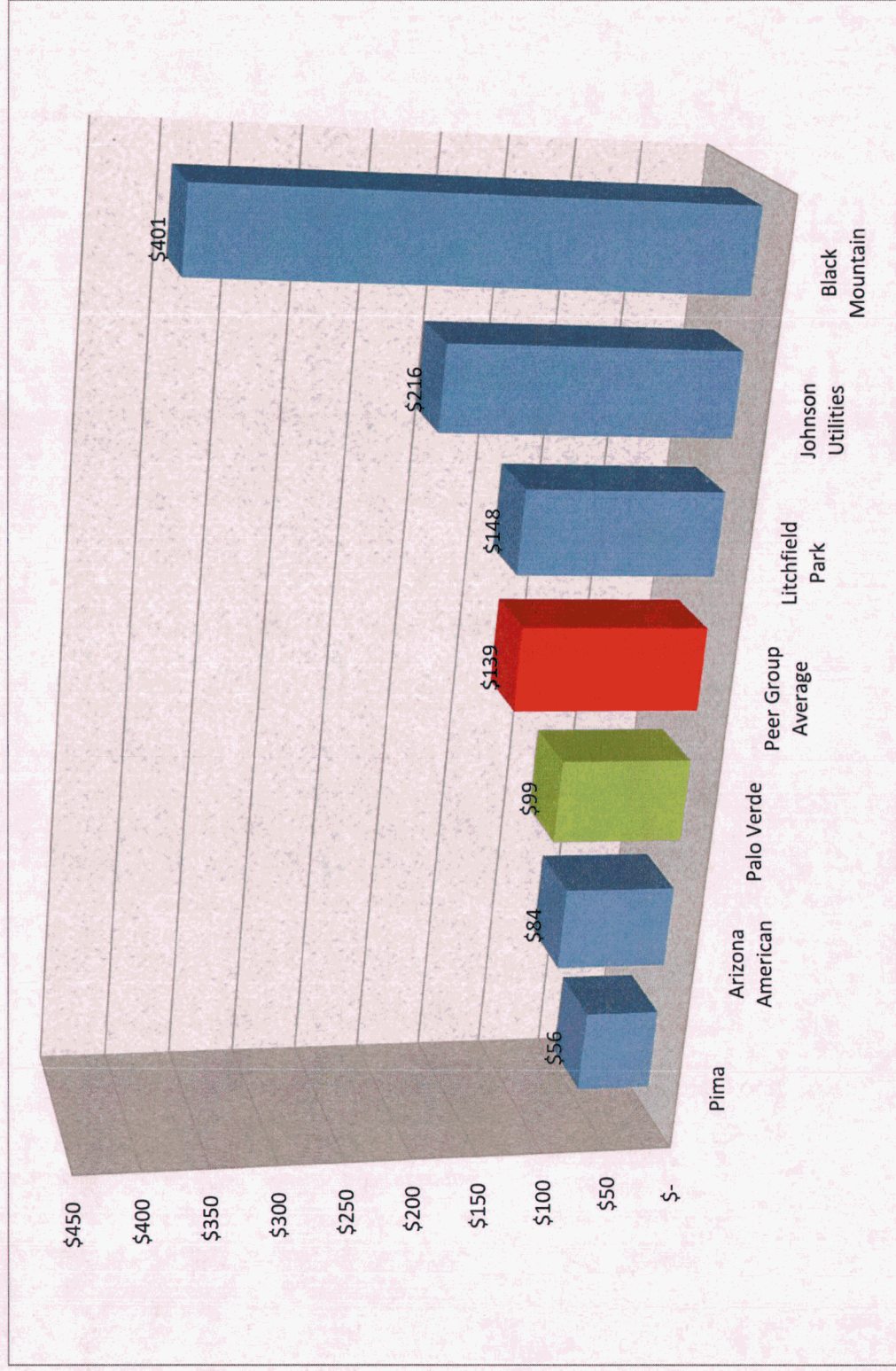


Chart 7: Wastewater Labor Costs Per Customer (2008 Annual Reports)¹



¹ Labor Costs are defined as the sum of operating expense accounts 701 Salaries and Wages, 704 Employee Pension and benefits, 731/734/735/736 Contractual Services

Attachment B

Joint Issues Matrix Global Rate Case 09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Rate Base				
RUCO Rate Base Adjustment No. 1: Correct Error in Rate Base	Agree	Agrees	Agree	To be determined (TBD)
RUCO Rate Base Adjustment No. 2: Accumulated Depreciation for Santa Cruz and Palo Verde	Agree	Agree	Agree	TBD
Staff Rate Base Adjustment No. 1: Treat ICFA as CIAC (See ICFA section below for more detail)	Disagree – See ICFA Section Below	Agree	Agree	TBD
Staff Rate Base Adjustment No. 2: Amortization of CIAC	Disagree	Agree	Agree	TBD
Income Statement				
Global Adjustment No. 1: Remove Unbilled Accrued Revenue	Agree	Agree	Agree	TBD
Global Adjustment No. 2: Miscellaneous Adjustments to Revenue	Agree	Agree	Agree	TBD
Global Adjustment No. 3: Annualize Revenue and Expenses	Global accepts the revised calculation by Staff	Provided revised calculation – See Staff Adjustment No. 1	Agree with revised calculation by Staff	TBD
Global Adjustment No. 4: Reduces Salaries, Wages and Benefits to reflect reduced number of employees	Agree	Agree	Agree	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Global Adjustment No. 5: Purchased Power adjustment to reflect increased electrical rates	Agree	Agree	Agree	TBD
Global Adjustment No. 6: Remove Advertising Expense	Agree	Agree	Agree	TBD
Global Adjustment No. 7: Rate Case Expense	Agree	Agree	Agree	TBD
Global Adjustment No. 8: Bad Debt Expense	Global removed this adjustment in Rebuttal	Disagree; See Staff Adjustment No. 8	See Staff Adjustment No. 8 (RUCO Adjustment No. 6)	TBD
Global Adjustment No. 9: Revise Depreciation Expense to reflect end of year plant balances and Staff's typical depreciation rates	Agree	Agree	Agree	TBD
Global Adjustment No. 10: Remove ACC & RUCO assessments	Agree	Agree	Agree	TBD
Global Adjustment No. 11: Remove Property Tax Expense to reflect proposed property tax pass thru	Agree; but should be reversed if property tax pass thru is denied	Disagree	Disagree	TBD
Global Adjustment No. 12: Income Statement	Differences reflect different revenue requirements	Differences reflect different revenue requirements	Differences reflect different revenue requirements	TBD
Staff Adjustment No. 1: Revise Revenue Annualization	Agree	Agree	Agree	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Staff Adjustment No. 2: Reclassify Expenses from Salaries and Wages and Pensions and Benefits to Contract Services Management Fees	Disagree – current classification provides better transparency	Agree	Disagree – accept Global’s reasoning to have better tracking effect	TBD
Staff Adjustment No. 3: Normalize Materials and Supplies Expense using 3-year average	Disagree – 3-year average not reflective of expenses due to change in allocation methods	Staff has withdrawn this adjustment	N/A	N/A
Staff Adjustment No. 4: Revise Contract Management Fees by removing some items and normalizing others	Agree	Agree	Agree	TBD
Staff Adjustment No. 5: Reduced expenses due to automated meters	N/A	No adjustment necessary	N/A	N/A
Staff Adjustment No. 6: Adjust Purchased Power Expense to reflect water loss	Agree in concept; but weighted average should be used	Agree with Global’s revision	Agree with Global’s position	TBD
Staff Adjustment No. 7: Water Testing Expense reclassified from Contract Services – Other	Agree	Agree	Agree - \$0 effect	TBD

Joint Issues Matrix Global Rate Case 09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Staff Adjustment No. 8: Bad Debt Expense	Proposes use of actual test year bad debt expense	Agree	Agrees with Global that actual test year bad debt expense should be used	TBD
Staff Adjustment No. 9: additional Depreciation Expense related to additional CIAC	Disagree: (1) due to disagreement re CIAC; and (2) wrong to reduce expense by accumulated amortization of CIAC	Agree; calculation revised to reflect agreement with Global's second point	Agree (RUCO Adjustment No. 7)	TBD
RUCO Adjustment No. 1: Property Tax	Agree if property tax adjustor denied	See Staff's property tax adjustment	Agree	TBD
RUCO Adjustment No. 2: CAGRD Fees	N/A	N/A	Listed as adjustment but no adjustment proposed due b/c no CAGRD fees paid; RUCO will accept ACC decision in Johnson Utilities case	N/A
RUCO Adjustment No. 3: Remove revenue related to volumetric rebate	Disagree because Global did not calculate a reduction in usage as assumed by RUCO	Disagree	RUCO has withdrawn this adjustment	TBD
RUCO Adjustment No. 4: Franchise Fees	Agree	Disagree	Agree	TBD
Use Global's cost allocation method	Agree	Agree	Agree	TBD

Joint Issues Matrix **Global Rate Case** **09-0077 et al**

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Rate of Return				
Capital Structure – Palo Verde	55% equity / 45% debt (Reflects IDA imputation)	Agree w/ Global	62.11% equity / 37.89% debt based on composite capital structure	TBD
Capital Structure – Santa Cruz	56% equity / 44% debt (Reflects IDA imputation)	Agree w/ Global	62.11% equity / 37.89% debt based on composite capital structure	TBD
Capital Structure – Valencia Town Div.	Agree with RUCO	60% equity / 40 % debt (Hypothetical)	62.11% equity / 37.89% debt based on composite capital structure	TBD
Capital Structure – Valencia GB Div	Agree with RUCO	54.9 % debt / 45.1% equity (adjusted for acquisition)	62.11% equity / 37.89% debt based on composite capital structure	TBD
Capital Structure – Greater Tonopah	Agree with RUCO	None; used operating margin to develop revenue requirement	None; used operating margin to develop revenue requirement	TBD
Capital Structure – Willow Valley	Agree with RUCO	60% equity / 40% debt	62.11% equity / 37.89% debt based on composite capital structure	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Cost of Debt	Agree with RUCO except use actual cost of debt for Santa Cruz (6.57%) and Palo Verde (6.34%)	Palo Verde = 6.3% Santa Cruz = 6.6% Val. T. Div. = 6.7% Val. GB Div = 6.6% Tonopah = 6.3% Willow Valley = 5.5%	6.44% based on composite cost of debt	TBD
Cost of Equity	10.0%	Agree with Global	9.00%	TBD
Operating Margin (Tonopah only)	N/A	10.0%	8.03%	TBD
Pass Thru and Adjustor Mechanisms				
Renewable Energy Adjustment Mechanism	Agree	Disagree – renewable plant should be treated the same as all other plant and be recovered through rate base	Disagree – renewable energy is not required	TBD
CAGR Pass Thru	Agree	Disagree – not currently incurring CAGR fees; alternative recommendation = adjustor from Johnson Utilities rate case	Disagree – not paying CAGR fees	TBD
Property Tax Pass Thru	Revised to adjustor mechanism; property taxes are significant and increasing	Disagree – property tax not a significant or volatile expense	Disagree (similar to Staff)	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Franchise / MOU Fee Adjustor	Agree	Disagree; but states current tariff allows franchise fee pass thru if franchise approved in election	Disagree; but expenses should be included in utility operating expense	TBD
Engineering Issues				
WUGT Sun Valley system	Additional storage not required due to backup well	Recommendation withdrawn	Requires engineering opinion; RUCO defers to Staff	TBD
Unaccounted-for Water	Water loss percentage is not best metric; should look at alternative metrics such as GPHMI and UARL	Recommend that utility be required to file w/in 90 days of decision detailed water loss plan for various systems	Requires engineering opinion; RUCO defers to Staff	TBD
ICFAs				
Accounting	No adjustment; CIAC is extremely harmful and should be avoided	Treat as CIAC	Treat as CIAC	TBD
Acquisition Off-Set	CIAC imputation should be off-set by amounts spent on acquisitions	No off-set	May consider off-set in future cases on a case-by-case basis	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Southwest Plant Off-Set	Agree with Staff	CIAC imputation should be reduced by amount of plant voluntarily excluded from rate base	Agree with Staff	TBD
Parent Level Expense Off-Set	CIAC imputation should be off-set by parent-level expenses not included in rate case	No off-set	Agree with Staff	TBD
Tax Off-Set	CIAC imputation should be reduced by amount of taxes paid because investments are made on post-tax basis	No off-set	Agree with Staff	TBD
Carrying Cost	ICFAs fund carrying cost of infrastructure until placed into rate base	Disagree	Disagree	TBD
Total Water Management	Commission should consider Total Water Management concepts in evaluating ICFAs; ICFAs are needed for conservation-related plant	Formal program not necessary	Suggest generic docket	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Industry Structure	Commission should consider highly fragmented nature of water utility industry in making economic regulation decisions – including ICFAs	Disagree that industry is highly fragmented; agree that utility commission economic policies can impact industry structure; disagree regarding ICFAs	Suggest generic docket	TBD
Cost Free Capital	ICFAs fees are not cost free capital because carrying costs of infrastructure must be considered; If ICFAs are considered cost-free capital, apply off-sets above because they reduce amount available for investment	ICFA fees should be treated as CIAC because they are cost-free capital from developers	Agree with Staff	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Long-Term Storage Credits				
Long Term Storage Credits generated by Hassyampa Recharge Facility	Disagree with Staff; Facility owned by unregulated entity; utilities did not pay for: (1) recharge infrastructure; (2) cost of water; (3) operating costs	Global should record a regulatory liability equal to the net sale proceeds of the credits; utility permits were used to generate the credits; utilities should not "give away" credits; annual filing regarding credit sales should be required	Agree with Staff	TBD
Conservation				
Demand Side Management	Global's DSM program should be approved	Agree; Global should file DSM tariff review and approval 60 days after rate decision	Agree	TBD
Designations of Assured Water Supply	DAWS necessary for long-term planning and conservation	Recognizes some benefits from DAWS	Agree with both Global and Staff	TBD
Rate design should promote conservation	Agree	Agree	Agree	TBD
Rate Design				

Joint Issues Matrix Global Rate Case 09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Eliminate 1,000 gallons in monthly minimum	Agree	Agree	Agree	TBD
Use Inverted Block Rates	Agree	Agree	Agree	TBD
Number of Inverted Block Tiers	6	3 (alternative = 4)	6	TBD
Phase-In Rate Increase for Palo Verde (3 years)	Agree	Agree	Agree	TBD
Phase-In Recycled Water Rate Increase Palo Verde (5 years)	Agree	TBD	TBD	TBD
Consolidate West Valley rates	Agree; necessary to protect WUGT customers	Disagree because no benefit to WUGT customers because they have a rate decrease under Staff's revenue requirement	Disagree; Valencia's customers likely have no benefit to subsidizing WUGT	TBD
Volumetric Rebate	Provide a rebate on volumetric rate for customers who use less than the threshold amount to encourage conservation	Disagree; may allow utility to over-earn	Disagree; will not save ratepayers money; incentives are flawed because rebate applies to customers already below threshold	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Monthly Minimum (5/8" by 3/4" residential meters; for other meter sizes see schedules)	Santa Cruz = \$33.35 Valencia TD = \$35.35 Valencia GB = \$33.25 Tonopah = \$ 75 Willow Valley = \$29.65 West Valley Consolidated = \$38.10	Santa Cruz = \$25 Valencia TD = \$18 Valencia GB = \$16 Tonopah = \$16.50 Willow Valley = \$21.50 West Valley Consolidated = N/A	Santa Cruz = \$27.83 Valencia TD = \$34.80 Valencia GB = \$32.69 Tonopah = \$25.95 Willow Valley = \$27.02 West Valley Consolidated = N/A	TBD
Monthly fee for construction meters	Construction customers are assigned an individual meter so a monthly fee is appropriate	Disagree with Global	Agree with Global	TBD
Tariffs and Miscellaneous Fees				
Low Income Tariff	Agree	Agree; Global should file low income tariff for review and approval 60 days after rate decision	Agree	TBD
Meter Exchange Tariff	Agree with Staff's revised language	Revised language should be used	Agree	TBD
Water Theft Tariff	Agree; A.A.C. R14-2- 410.B does not apply to non-customers	Disagree; not needed because of A.A.C. R14- 2-410.B	Agree	TBD

Joint Issues Matrix

Global Rate Case

09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
Hydrant Meter Deposit Charge	Agree with Staff	Should reflect actual equipment costs	Agree	TBD
Lock / Security Tab Cutting Charge	Agree; A.A.C. R14-2-410.B does not apply to non-customers; also charge is appropriate under A.A.C. R14-2-407	Disagree; not needed because of A.A.C. R14-2-410.B	Agree	TBD
Source Control Tariff	Agree	Agree	Agree	TBD
Unauthorized Discharge Fee	Agree; illegal discharges cause greater damage than source control violations	Agree	Agree	TBD
Deposit Interest	1 year CD rate	6.0%	6.0%	TBD
Establishment Fee	Agree with Staff	\$35 to reflect customary charges	No position	TBD
After Hours Fee	Agree with Staff	\$50 / hour	No position	TBD
Reconnect Fee	Agree with Staff	\$35	No position	TBD
Reconnect Fee – After Hours	Agree with Staff	\$60	No position	TBD

Joint Issues Matrix Global Rate Case 09-0077 et al

ISSUE	GLOBAL	STAFF	RUCO	WUAA
NSF Fee	Agree with Staff	\$30	No position	TBD
Other Issues				
Regional Infrastructure	Regional infrastructure should be encouraged because it creates lower operating costs and it allows for recycled water	Regional plant costs are expensive	No position	TBD
Developer Infrastructure	Off-site infrastructure built by developers is typically law-quality and does not allow for recycled water and should be discouraged	Utility can require developer to adhere to standards	Utility can require developer to adhere to standards	TBD
Note – New World Properties has been granted intervention but has not taken a substantive position on any of these issues				
Note – This issues matrix does not include any positions that may be taken by the City of Maricopa				

**Joint Issues Matrix
Global Rate Case
09-0077 et al**

ISSUE	GLOBAL	STAFF	RUCO	WUAA